North
American
Policy
Group

Comparative Perspectives on Regional Development

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Executive Summary

This report has been prepared by the North American Policy Group (NAPG) at Dalhousie University as an effort to describe regional development policy and practices in a wide variety of countries. Fifteen countries plus the EU are part of this survey. Each country's policies were described historically and present policy examined in more detail. The second section of the report consists of a number of observations made about the similarities and differences in the countries' experiences and some attempt is made to derive lessons for Canada from this overview. Finally, the future challenges to regional development policy are explored.

Generally, regional development policy attempts to equalize economic opportunities on a geographic basis. This inequality of economic opportunity may occur because a population base exists on a periphery that is far from primary markets or a one-industry area may have experienced structural change within this sector. Over the decades, all countries have tried to use public policy to overcome such geographic differences in income, factor endowment and productivity as well as to assist in the structural conversion of declining economies. Canada itself has nearly 40 years of experience in formal regional development policy and programming.

Country policies were examined along four dimensions: Focus, Governance, Impact and Instruments. There proved to be a wide range of alternatives in the area of Focus and less on the other dimensions. EU countries tended to have a great deal of consistency on the dimensions of Governance and Impact, which reflects the role of the EU. Canada was the country with the greatest experimentation with Instruments. The US and Chile had the least, or most passive, regional development efforts. Japanese and French metropolitan congestion problems tended to evoke a similar Focus. Every country, with the possible exception of one or two, was concerned in part with the development of local small and medium enterprises (SME).

The future of regional development policy will tend to be caught up with four challenges:

1. increasing economic globalization
2. increasing development of politico-economic zones
3. changing nature of economic production
4. changing nature of government responsibilities.

In the Canadian case, these will require a policy that supplements the present SME emphasis with a speedy, flexible set of policy agencies and instruments that can assist small globalized companies in the region to grow and effectively compete.

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Comparative Perspectives on Regional Development

1.0 Introduction

1.1 Report Objectives:

The aim of this report is to provide a modest attempt at some assessment of where Canadian regional development experience is located in a global context. This report focuses first on the historical evolution of regional development "policy" in 15 countries, including Canada, with the EU as a whole appended. The 15 countries whose regional development policies have been explored leans heavily towards membership within the OECD. It includes:

1.	European Union (EU)	9.	Poland
2.	Ireland	10.	Canada
3.	United Kingdom (UK)	11.	United States (US)
4.	Germany	12.	Mexico
5.	France	13.	Chile
6.	Italy	14.	Australia
7.	Sweden	15.	Japan
8.	France	16.	South Africa

Second, this report provides an estimate of four dimensions of regional development programming for each of these countries These four dimensions are:

1. the focus of policy (i.e., decentralization of the economy, small business, etc.)
2. governance of the regional development effort
3. the intended impact on the regional economy (e.g. anti-poverty, competitiveness).
4. instruments used in the regional development effort

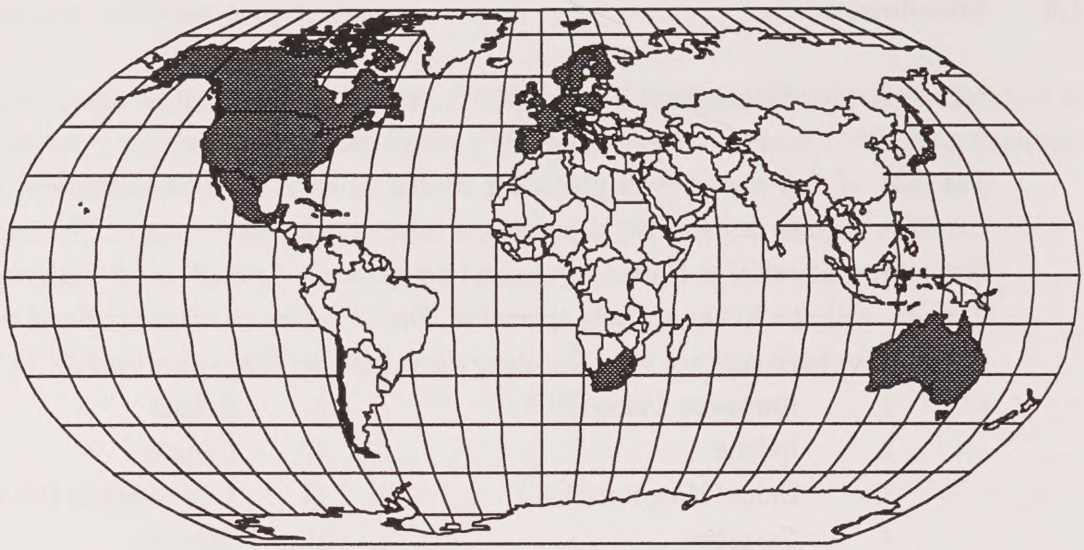

Figure 1 - Where In the World

Originally, an attempt was made to estimate the financial resources used in each country, but ensuing difficulties with these estimations meant that it was impractical to continue.

The European Union has been included as a sixteenth "country" because of the complementarity that exists between the European Union Structural Funds and the various European national programs. Describing only the European national regional development program without also defining the availability of EU programs would provide an incomplete picture of European regional development practice.

Third, this report attempts an overview of the evolution of regional development policy, with special emphasis on Canada as well as the EU. As well, attempts are made to put the regional development policies and programming into a more comparable and comprehensive context. This work is derivative from the individual country studies.

This report is therefore, presented in two parts. Each country's regional development practice is described in Part I. Each country description looks at how its regional development effort is organized and delivered. The resulting country descriptions form the core body of knowledge of the overall report.

Part II of this report, then, puts a context to regional development policy in all the countries. It discusses how the various countries, including Canada, are positioned relative to the four dimensions mentioned above. An attempt is also made to chart the rough "locations" of countries relative to four meta-policy concerns. Finally, some comments are provided on the evolution of regional development policy in the next decade, and what Canada's response should be.

1.2 Organization of the Report:

Part 1 - Country Descriptions

The four dimensions provide a framework for describing regional development in the 15 selected countries. In the description of each country chosen, these four are described in greater or lesser fashion depending on the information available. In some cases, such as Canada, UK and Germany, information had to be compressed. In others, much could not be found.

There are specific reasons as to why each country was chosen. For example, NAPG wanted to ensure that both North and South America were covered because of the influence NAFTA may have on the development of these economies. European countries were chosen to highlight the interplay between the regional development policies of the EU and the national regional development programs of member countries. A East European country was chosen to reflect the ongoing development of a market economy in the former Communist bloc, and a non-EU Western European country was included as well. Two countries in the Asia-Pacific area have been included because of the importance they play within the global economy.

In addition to looking at the process and machinery of delivery, some judgements have been made with respect to how regional development is reflected within the priorities of government. Specific levels of government where regional development is assigned are noted; whether regional development receives Cabinet Committee treatment or is delegated to a lower level of government are addressed as far as is possible.

The focus of regional development policy in each country is described with reference to the criteria these countries use to define regional development. Countries also assign different goals for regional development policy and these are noted. For example, one country may use indicators of economic disparity to trigger regional development programs whereas another country may use specific events such as military base closures or structural readjustments within industry as its indicators.

Part 2 - Positioning Canada relative to other country practices

The purpose of positioning Canada within a group of countries is to provide a global perspective on regional development. Part 2 will position Canada relative to the other countries using the four dimensions identified in Part 1. This type of analysis is not intended to provide an overall ranking. It is intended to provide a global perspective on regional development practice. This part of the report will discuss how Canada is positioned vis-a-vis other countries and what the future may bring.

1.3 Methodology

The most important tasks for NAPG were to gain a perspective on the evolution of regional development policies and to acquire the most up to date information on the 15 countries of the sample. Several countries had just undergone national elections which made our task more complicated. This was true in the case of the United Kingdom, with a Labour victory, as well as South Africa, where apartheid was ended. It was impossible to rely solely on published sources; we needed to use a variety of methods to uncover any possible changes in government policy.

Our intent was to focus on national government policy, strategy and programs related to regional development and put that information into the relevant government framework. We did not consider sub-national units and their policies to any great extent. Clearly, however, the actions of sub-national units is important in, for example, Canada, Germany and the US. In other countries, various units are gaining more policy and fiscal autonomy. Studying development policy at this level is intriguing, but is a large, separate task.

Four methods of information retrieval were used to collect information as follows:

1. Electronic search - web sites, government or institutes;
2. Literature search - published articles;
3. Contact with OECD Regional Development Committee members; and
4. Telephone inquiries of academics, as well as Canadian consular offices for direct country contacts.

Using a variety of sources, both electronic and paper-based, we conducted a literature review based on the specific countries and the topic of regional development. We did not uncover an overwhelming amount of resource material using this method. What we did find was primarily historical in nature and this is reflected in the country descriptions. Using narrower search terms revealed additional information, specifically related to national program application. This was especially true in the case of sub-regional areas such as Emiliano-Romagana, Baden-Wurtenburg, Japanese technopolises and others.

Electronic sources were invaluable for providing us with more recent information directly from government sources. Website information at least provided baseline data as to what the latest written policy of the government is. These government sources also provided specific information as to what type of programs or tools exist that would encourage regional development.

Published articles generally reported on the effects of particular government policies over time with recommendations as to the effectiveness of the policy or of changes that should be made to policy.

There is always a point in this type of research when direct contact with either policy- makers or policy-watchers must be made. To do this, we relied on contacts with the OECD Working Party on Territorial Development as well as drawing from our own resources in this field. These contacts either provided additional documentary information as to the status and shape of regional development policy in a particular country or participated in telephone interviews.

The country profiles presented constitute a compromise between what was intended at first and what was possible given time and resource constraints. It emerged early on that the evolution of regional development policies was not as intensively documented in most countries the way it has been in Canada. Compiling the basic "story", which is fundamental to any further analysis, took up much of the resources available for this study. Consequently, much of the narrative is historical. The Internet was invaluable in uncovering some of the present-day structures and policies, but our results again are uneven. Even so, this report is useful in providing an overview of a scope that does not seem to exist anywhere else.

2.0 National Regional Development Policy by Country

2.1 Regional Development in the European Union

Figure 2 - European Union

Signatories to the Treaty of Rome recognized that if they were to create a successful economic relationship then it was important to equalize regional differences. Their first act to improve regional imbalances was the creation of the European Investment Bank (EIB). The purpose of the EIB was to finance infrastructure projects in less developed areas. Any other activities that related to improving the less developed areas were then delegated to other Community institutions.

As the Community evolved, so did the initiatives undertaken to develop regional development policy. It was not until 1975 though, when the Community formalized its position on regional development with the creation of the European Regional Development Fund (ERDF) and establishment of a Regional Policy Committee. The ERDF then operated for several years under the financial provisions determined at that time until it was completely restructured in 1988.

The restructuring was further proof that the Community was committed to pursuing a policy of regional development for less developed areas. A framework regulation on the new tasks of the structural funds was adopted. This is the beginning of what are now known as the "programming periods", the first being the 1989-1993 programming period.

The ERDF is under the responsibility of Directorate-General (DG) XVI of the European Commission, and is responsible for the economic and social development of the community.

Under the 1988 reform of the structural funds, three types of "problem" regions were defined as follows:

1. regions whose development was lagging behind;
2. areas where declining industrial activities were dominant; and
3. areas where agriculture dominates.

These regions were characterized by their over-dependence on a few traditional economic activities which could not provide sustainable productivity, employment or income. The indicators used to determine the eligibility of regions included, having a per capita GDP below the Community average, the rate and length of unemployment and indications of population migration.

There are four European Community Structural Funds today:

1. European Regional Development Fund (ERDF)
2. European Social Fund (ESF)
3. European Agricultural Guidance and Guarantee fund (EAGGF)
4. Guidance Section and the financial instrument for fisheries guidance (FIFG)

These funds pursue seven priority objectives:

Objective 1: the economic adjustment of regions whose development is lagging behind;

Objective 2: the social and economic conversion of declining industrial areas;

Objective 3: action to combat long-term unemployment and facilitate the occupational integration of young people and people in danger of exclusion from the labour market;

Objective 4: the adaptation of workers to industrial change by means of measures to prevent unemployment;

Objective 5a: the adjustment of agricultural and fishery structures in the framework of the reform of the Common Agricultural Policy (CAP);

Objective 5b: the economic diversification of vulnerable rural areas;

Objective 6: the economic adjustment of regions with an extremely low population density.

Objectives 1,2, 5b and 6 are known as regional objectives, as they form the basis for measures in specific eligible regions or subregions. Objectives 3, 4 and 5a cover all of the Community. Unemployment rates are one of the eligibility criteria for objectives 2, 3 and 4. Programmes under those three objectives are available for workers who must retrain due to structural adjustment in industry, and assistance in the creation of new businesses. Other activities include reducing the barriers to mobility throughout the EU.

The entire area of three countries is considered eligible for Objective 1 funding. These are Greece, Portugal and Ireland. A large part of Spain is also eligible for Objective 1 funding. Any of the central or eastern European countries applying for membership will be covered under Objective 1 criteria.

The principal Structural Fund for regional development is the European Regional Development Fund. The Fund can use various forms of financial operation, including co-financing, regional aid programs and projects for infrastructure, "global subsidies"[1],and support for technical assistance, project preparation and assessment. The granting guidelines of the Fund are also broad. ERDF can finance investments in infrastructure (Objective 1, 2 and 5b regions only) or other "productive investment" for the creation or maintenance of permanent employment. The Fund may support projects which enhance: the development of local potential and SMEs, particularly in the areas of enterprise services, transfer of technology, capital markets and direct aid to investment; education and health in Objective 1 regions; research and development, environmental protection, Community Initiatives and project preparation, appraisal, monitoring and evaluation.

The European Union is now into its second programming phase, 1994-1999. Financial resources available under the Structural funds are ECU 200 billion (at 1997 prices), about one-third of the Community budget. Almost 50 percent of the European Union's population is covered under Structural Fund programming with approximately 70 percent of funds being designated for regions eligible for assistance under Objective 1.

DG XVI is also responsible for administering the Cohesion Fund. This Fund was initiated by the Maastricht Treaty to assist those countries most likely to suffer adverse economic effects when the currency conversion takes place in 1999. Only Greece, Ireland, Portugal and Spain are eligible for programme funding under this Fund, having met the eligibility criteria of per capital GDP of less than 90 percent of the Union's average. Programme funding supports environmental projects and trans-European networks.[2] The Cohesion Fund has a budget of about ECU 15 billion in the 1993-99 period.

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[1] EU funds granted to an intermediary organization and used within a general framework of development.

[2] Total transfers from the Structural Funds and the Cohesion Fund to any Member State should not exceed 4 percent of that Members' GDP.

The next programming period is from 2000 to 2006. Although details have not yet been finalized, suggested revisions include reducing the number of objectives from seven to three. Possible funding level is equivalent to ECU 275 billion (at 1997 prices). Other suggestions for change include using financial instruments other than grants such as low-interest loans, loan guarantees and equity participation. With the European Union contemplating expanding its membership to include countries in the Mediterranean, Central and Eastern Europe, ECU 45 billion has been earmarked for them. All of these countries will become eligible for Objective 1 assistance. Even though this situation will present a challenge to the EU, this is seen as an excellent opportunity to promote social, economic and political cohesion on the European continent.

The European Union's regional development policy is not meant to supersede national programmes. In fact, support from the Union is meant to complement existing national policy. All structural fund financing is co-financed between the EU and national governments. The intention of the structural fund program is to support national government regional development policy. This is to reinforce the need to equalize development across the Community so as to achieve greater economic harmony. Even so, section 3.3 of this Report concerns the conflict that the EU/national regional development structure engenders.

Through the work of DG IV - the competition directorate, the European Union seeks to avoid unnecessary competitive behaviour between nations seeking mobile investment. To do this, DG IV monitors all national assistance schemes to prevent destructive inter-country competition for investment projects. DG IV is actively involved during the negotiation process that determines eligible regional coverage under the Structural Fund programs.

SUMMARY - EUROPEAN UNION

Policy Focus	Areas with varied disparities, comprehensive approach
Governance	EU agreements on eligibility "maps" with individual countries. Joint EU/national program development
Impact	Improved employment prospects
Instruments	Use of funds/banks to interact with national programs

2.2 Regional Development in Ireland

Figure 3- Ireland

The Irish national economy has been characterized by a high level of public debt, high unemployment and a relatively high dependence on agriculture (11.8 percent of the workforce compared to an EU average of 5.5 percent). The population is small and relatively sparsely distributed and has a high level of concentration on the Eastern seaboard (about 30 percent in Dublin). At 26 percent, Ireland has a higher percentage of population under the working age between 0 - 14, than the EU average of 18 percent. The lack of a land link to the rest of Europe also has a significant impact on Ireland's prospects.

The economic divide in Ireland is fundamentally East-West. A recent report on the North West counties of Leitrim, Sligo and Donegal shows unemployment levels at 17.6 percent, population decline at a 2.2 percent annual rate and a high rate of dependency on agriculture and the fishery (16.9 percent of the workforce compared with a national average of 12.5 percent).

Recently however, the Irish economy has improved dramatically. Real GDP growth has led the European Union in most of the past six years (annual averages of 4.4 percent since 1992 compared with an EU average of 1.5 percent) and employment in technology related industries (mostly foreign owned) has grown dramatically with resulting decreases in unemployment levels from 15.5 percent in 1992 to 12.9 percent in 1995 (EU average 11 percent). In the 12 months to April 1995 over 50,000 non-agricultural jobs were created in the Irish economy.

Historically, because of the entire country's designation as a European Union Objective 1 area, the Irish national government has had no concentrated regional development policy effort. Governments have concentrated on general industrial policy with national objectives coupled with a commitment to equitable development.

Ireland's development policy has focused on the creation of sustainable employment for its population. This has often taken the form of incentives to attract foreign investment, and this strategy has been quite successful in attracting foreign industry. More recently the development of indigenous businesses has assumed a more significant role.

The Industrial Development Act of 1993 divided the Industrial Development Authority (IDA) into three separate units, IDA-Ireland, *Forbairt* and *Forfas*. These agencies report to the Minister for Enterprise and Employment.

Forfas is the policy development and advisory board for Irish industrial development. It is responsible for the coordination of development policy in the country. *Forfas* delegates power to *Forbairt* and IDA-Ireland for implementation of the policy.

IDA-Ireland provides assistance to foreign companies considering investing in Ireland, and encourages those already operating to expand. Assistance may take the form of services, grants, loan guarantees, rent subsidies, training and other financial assistance and tax incentives.

Forbairt deals with the development of local industry and provides a range of science and technology services and programs. Support is provided under three categories: building competitive firm capability; firm level capacity expansion; and industry level capacity expansion. *Forbairt* has established 11 regional boards, each of which match approved funding up to IrL200,000 for small businesses who have not previously received more than IrL250,000. *Forbairt* uses a variety of support tools including grants, study grants and training packages. Equity investments are also increasing. Following a thorough review in 1991, greater emphasis is being placed on repayable support.

Fiscal incentives are an important part of the Irish incentive package. Manufacturing companies in Ireland pay a corporate tax rate of only 10 percent until 2010. Financial services firms which locate in Dublin are also eligible for this rate until 2005.

Regional disparities are addressed through legislation for national government programs which distinguishes between designated (DAs) and non-designated areas (NDAs). DAs are eligible for rates of award up to 60 percent while NDAs may only obtain funding up to 45 percent of eligible project cost. Current designated areas include the Western seaboard and some areas to the South and Northwest. There are no explicit criteria for designation. Many of these areas have been designated since 1952 as a result of perennial high unemployment and other economic hardships.

The Irish system of government is highly centralized with all sub-national powers delegated by the national power. Sub-national governments exist at the county level but are highly dependent on central authorities. A number of regional organizations do exist however, and they have assumed an increasingly important role in delivering development policies.

Eight Regional Development Authorities were established in 1994. These are responsible for the promotion and coordination of public services and reviewing and advising on the implementation of European Structural and Cohesion Fund programs.

36 County Enterprise Boards (CEBs) have been established to aid in developing indigenous activity, particularly for small start-ups. The Boards have broad community and government participation and are the primary support mechanism for businesses with under 10 employees.

In 1992, the government established Area Development Management (ADM) Ltd. to allocate funds to partnerships of the community and voluntary sectors, social partners and state agencies operating at the local level in Designated Areas.

Local development objectives are pursued through three main sub-programs of the Department of Enterprise and Employment (DEE) in cooperation with these local bodies:

Sub-program One:	Local enterprise is development programming and is implemented through CEBs to small- and micro-businesses (ECU 76 million).
Sub-program Two:	Integrated development of DAs is carried out by ADM (ECU 97 million).
Sub-program Three:	Urban and Village renewal is administered by the Department of Environment and includes a variety of environmental and architectural measures, (ECU 77 million).

Two other government agencies should be mentioned in the context of regional development. The Shannon Free Airport Development Company (SFADCo) has expanded beyond its original airport development mandate to include industrial development, and tourism in the Mid-West region. The secondary agency, *Udaras na Gaeltachta,* was established in 1970 to encourage the preservation and extension of the Irish language and to foster industrial development in the *Gaeltacht* (Irish speaking districts). *Gaeltacht* areas exist in seven counties, mainly on the Western seaboard.

Ireland also benefits as a peripheral area under an EU "Community Initiative" known as INTERREG II, which aims to develop cross-border cooperation and assist areas on the frontier to overcome problems associated with their isolation.

Ireland is unique in the EU in that it has developed an institutional structure for the evaluation of the use of EU Structural Funds. Units in DEE, the Department of Agriculture and the Department of Finance all have evaluation functions. It is estimated that the long term benefit of EU aid will have added .8 percent to Irish GDP by 2000.

SUMMARY - IRELAND

Policy Focus	National development, with some regional effects
Governance	EU designation of whole country as Objective 1 reduces its influence. National control, local administration.
Impact	Reduce unemployment, improve competitiveness
Instruments	County bodies, special agencies, grants & loans.

2.3 Regional Development in the United Kingdom

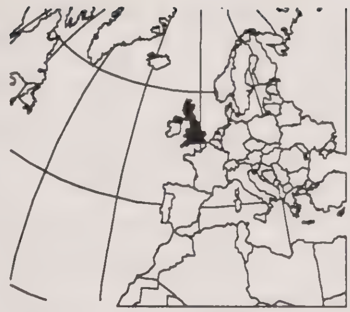


Figure 4 - United Kingdom

In 1994, under the title, *Competitiveness: Helping Business to* Win, the UK government released a white paper which reviewed long-term national competitiveness. During the subsequent revision of regional policy, four key elements of regional development policy were established:

1. **Map of Assisted Areas**
   Regions eligible to receive "aid" are designated on the EU/UK Map of Assisted Areas. The Map was redrawn in 1993 and for the first time areas in the South-East of England and industrial parts of London were included. The primary indicator used to assess areas requiring assistance is the level of unemployment. The redesignation of areas involved a slight decline in the population coverage of the map from 35 to 34 percent of the British working population.

2. **Inward investment attraction.**
   A package of low corporate taxation, low cost of production, an established business culture and deregulation is used to attract mobile investment. In addition, the Regional Development Agencies can assist companies in the site-selection process while the Training and Enterprise Councils (TECs), can provide tailored training programs. Delivered on a discretionary basis, Regional Selective Assistance grants are made available to help secure projects

   The regional development agency for England is English Partnerships, in Scotland, the Scottish Enterprise and the Highlands and Islands Enterprise, in Wales, the Wales Development Agency. In Northern Ireland, the Industrial Development Board and the Local Enterprise Development Unit deliver regional programs under the authority of their respective Secretaries of State.

3. **The Single Regeneration Budget.**
   In April 1994, the Government announced the integration of the regional activities of four central government departments: Trade and Industry; Employment; Environment; and Transport. Ten regional offices in England only,

coordinate the regional activities of the four Departments in regeneration and economic development, as well as promoting close links with Departments without regional offices such as the Home Office and the Department of Education, and with business and local authorities in the region.

This initiative has also combined twenty programmes from different departments for the purpose of regenerating derelict, vacant and under-used land and property in England. In England, the amount allocated to the Single Regeneration Budget for FY 1996/97 was 1.3 billion pounds. Through their territorial coverage, the Scottish, Welsh and Northern Ireland regional development authorities also provide an integrated approach to regeneration.

4. **Regional Challenge Competition.**
   The fourth element, known as "regional challenge competition" mechanisms has been repealed by the new Blair government.

The White Paper did not introduce significant changes to two regional existing incentive schemes, Regional Selective Assistance (RSA), which is directed at the improvement of employment opportunities through new investment, and Regional Enterprise Grants (REG), that aim to improve small business performance and innovation.

The administration of RSA continues to be a DTI responsibility with no change to the previous delivery arrangements. The RSA is an important piece of the package for inward investment promotion. RSA is given as an additional emphasis to inward investment projects which contribute to skills and technology upgrading. Although elements of the RSA and REG incentives remain the same as before the administrative changes, applications for RSA are being scrutinized more stringently.

Business Links is a recently initiated local service delivery program. Each Business Link is a public/private partnership, established by a group of key local business support providers, including Training and Enterprise Councils (TECs), chambers of commerce, Enterprise Agencies and local authorities. Business Links provides a network of one-stop shops, throughout the country providing advice, information, counselling and consultancy services. As a requirement to receive funding from DTI, Business Links enterprises must undergo an accreditation process. There are approximately 240 Business Links enterprises now operational.

DTI has also established a "Regional Supply Network," to provide information for companies on sourcing, supply and public procurement opportunities. The Regional Supply Network is allied with the Business Links program.

The regional and local organizational changes described above do not apply to the whole of the United Kingdom. The Business Link concept, the Single Regeneration Budget, the new integrated regional office structure, and the regional supply network apply only in England. Similar initiatives occur under the territorial management of the development agencies in Scotland, Wales and Northern Ireland. Scottish Enterprise has also created a 40 office Scottish Business Shop Network.

In 1990, Northern Ireland's Industrial Development Board (IDB) refocused its action towards the support of industrial competitiveness and away from job creation. Northern Ireland's primary incentive program is Selective Assistance which has been in place for several years. The incentive package is now discretionary, having altered the previous automatic entitlement to grant assistance. In terms of the administration of assistance packages, there has been more delegation of authority to local bodies in order to expedite the processing of small awards. For domestic industry, the emphasis for assistance is on identifying and supporting competitiveness factors, such as: turnover, exports, profits, and value added.

Three main trends define the UK's approach to regional development policy today. These are: strict government budgetary controls; increased public partnerships with the private sector; and the simplification of services to SMEs.

SUMMARY - UNITED KINGDOM

Policy Focus	Urban redevelopment, rural unemployment
Governance	EU/UK map indicates assistance areas
Impact	Reduce unemployment, SME assistance
Instruments	Regional development agencies outside of England, one-stop local assistance centre, grants & loans

2.4 Regional Development in the Federal Republic of Germany

Figure 5 -- Federal Republic of Germany

Regional Development in the Federal Republic of Germany is a shared responsibility with the 16 *Laender* or states. Each *Laender* develops its own course of action within the limits of a joint national program of common responsibilities. The Federal Ministry of Economic and the *Laender* develop and implement policy in the following areas: competition policy; regional policy; small and mid-size business policy; energy policy; external economic policy; and the development of market structures in the country's new *Laenders,* (former East Germany). The policy is largely consistent with EU policy.

Regional development policy supports the economic development of disadvantaged regions, specifically eastern Germany. It also attempts to reduce the vulnerability of certain regions, particularly single industry regions. The overall goal is to reduce interregional disparities and help to equalize living standards throughout the country. The ideal of equality is enshrined in the Constitution under Article 106.

The framework for regional support can be found under the *Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur*" or, (GA) - Joint Task for the Improvement of the Regional Economic Structures. This support framework has been in place since 1969 and is composed of a planning committee of Federal and *Laender* representatives. The planning committee draws up a Framework Plan, in which is included the establishment of rules for regional policy coordination and harmonization in Germany. The latest Framework is the 26th and covers the three-year period between 1997 and 1999. The change from previous frameworks was the priority of harmonizing German regional policies with the regional support policies of the European Union.

Agreement on GA assisted areas is negotiated by the German Minister for Economics, representatives of the *Laender* and the EU Commissioner for Competition Policy. Under the 1997 to 1999 agreement, the GA assisted area covers approximately 17 percent of the west German population. West Berlin has been excluded from coverage under this agreement. There is a continuing decline in population coverage. Under the 1994-1996 agreement, 22 percent of the population was covered while under the 1991-1993 agreement, 27 percent of the population had been covered. The whole of east Germany is an eligible area within the GA support framework, although in 1995-96, it was treated separately and received higher rates

of award and more flexible eligibility criteria than in west Germany.

Although it was anticipated that after 1996, east Germany would no longer be treated separately from west Germany within the GA system, the Planning Committee has extended the assisted area period beyond five years as was outlined in the reunification agreement. In June 1997, the Bundestag passed a law which extended assistance to east Germany until 2004. It is the intention of the Planning Committee to integrate the two regional policy systems as economic conditions permit.

The Planning Committee can exchange areas within the framework of the 17 percent ceiling, thereby including regions which might not have complied with the designation criteria but where acute regional problems have been identified. Exchanges can take place within narrowly defined limits and must be individually justifiable.

The key regional development incentive is the Investment Grant, paid out in the areas designated under the GA programme. This incentive usually takes the form of a capital grant and is a discretionary grant programme administered by the Laender.

A soft loan program is also offered under the ERP programme umbrella, ERP aid originated in the European Reconstruction Programme under the Marshall Plan. The aid has been used since 1953 to promote specialized economic development objectives within the Federal Republic and subsequently the new *Laender*. The ERP regional programme in west Germany and the new ERP reconstruction programme in east Germany are part of this overall framework. The programmes are designed to assist small or medium-sized firms undertaking projects that are not eligible under the GA investment grant, i.e. projects of a basically local character, including local services such as wholesale and retail trades, craft activities and restaurants.

Although meant to be discretionary, assistance under ERP is available to any applicant who can fulfill the 'known' conditions of the award at the maximum rates available. Benefits obtained under this programme can also be used to complement assistance available under KfW, (*Kreditanstalt fuer Wiederaufbau*) programmes. KfW programmes are available outside of GA areas.

Three challenges exist which will affect the future direction of regional development policy in Germany.

1. The recession of the early ‘90's and the on-going structural change in primary sectors, has affected the ability of the German economy to recover from major shocks. With the deadline for Maastricht currency convergence looming, there has been added concern associated with the level of public expenditure restrictions required and the redirection of policy support in many areas.

2. The continued requirement for massive fiscal transfers to support the regeneration of east Germany, including major assistance through regional policy. In 1996, unemployment in east Germany was nearly twice the west German level. Some assistance provided to eastern Germany has been for job-creation and training programmes and early retirement. Between 1991 and 1996, it was estimated that west Germany has underwritten approximately DM900 billion worth of infrastructure improvements for eastern Germany.

3. The influence of the EU, with respect to the control of national regional policy, and the provision of EU regional assistance within the national framework. All of eastern Germany is categorized as an Objective 1 region thereby receiving EU structural funds as well as assistance under GA. Other regions in Germany are covered under Objective 2 definition (regions in industrial decline) or as Objective 5(b) regions (rural regions).

SUMMARY - GERMANY

Policy Focus	Reconstruction of former East Germany, urban redevelopment
Governance	Shared EU, federal and Laender responsibilities
Impact	Unemployment reduction
Instruments	Grant and soft loan incentives for investment

2.5 Regional Development In France

Figure 6 - France

France is often referred to as the most centralized nation in Europe. For centuries, Paris has dominated the economic activity of the country, overshadowing the large agricultural area to the south and the industrial region in the northeast. In the period following WWII, France underwent two major movements of decentralization. After 1949, policy initiatives were focussed on how to "deconcentrate" urban population and "decentralize" government activity out of the Paris region. In 1963, the French government created DATAR (*Delegation a l'amenagement du territoire et a l'action regionale*), the State agency responsible for encouraging development outside of Paris.

There has been little change in French regional development policy over the years. The "spatial" development policy has attempted to alter the role Paris has always played in the national economy. Outside of the Paris region, there has been a continuous rural exodus to urban areas. In part this has been the result of sectoral restructuring in agriculture. More recently, regional development policy has shifted focus to redevelopment and employment problems in urban areas.

Over the years, DATAR has sometimes modified its focus in response to the many economic and political events that have occurred within France. With the unemployment crisis in the early 1970s, DATAR enlarged its mandate to address high unemployment levels in distressed areas. In 1982, the French government legislated the decentralization of some central state government powers to local government. DATAR's role in this process was to act as the negotiator between the central government and the regions on five-year development planning contracts. DATAR also represents France on regional and competitive issues in the European Union. When the European Union's Structural Fund was reformed in 1989, DATAR negotiated the regional zone eligibility map for France. DATAR has also been instrumental in funding various infrastructure projects such as the TGV, highways, universities and research initiatives.

In 1993, France conducted a national consultation on the future direction of regional development policy. DATAR's involvement was instrumental during this national consultation. This process resulted in the *loi d'orientation pour l'aménagement et le développement du territoire* (LOADT), February 4, 1995. The 1995 law provides a framework for regional development up to the year 2015.

LOADT states that the objective of regional development policy is to contribute to national unity and solidarity. One of the law's objectives is to ensure that all citizens have the same opportunities of equal access to "knowledge." The law outlines the strategy for regional development, environment and sustainable development, major infrastructure and national public services provisions. It also deals with the relationship between central and local government and the shedding of government services. Any programming and activities delivered under regional development policy are intended to achieve balanced national development.

DATAR is directed by an inter-ministerial structure of civil servants and experts known as "*la Delegation*." under which there are five line departments. DATAR's responsibilities include relations between the agency and with ministers, study programs and international cooperation activities, investment promotion through the "Invest in France" agencies and network, the development of enterprises in regional areas, administration of the *prime d'aménagement du territoire* (PAT), financial incentive program, rural development initiatives, coordination of inter-regional projects and monitoring inter-regional transportation issues.

DATAR coordinates its activities at the national level through a *Comité interministériel a l'amenagement et au développement du territoire,* (CIADT). CIADT is a coordinating committee led by the Prime Minister to ensure that regional objectives are met across departmental lines. Representatives from other government departments also sit on this committee. In its capacity as regional development agency, DATAR is responsible for coordinating the state/regional planning contracts between the regional and local authorities and the central government. DATAR also liases with another central agency group known as, *le commissariat général au Plan* (CGP). CGP has a mandate much larger than DATAR, since, as its name implies, it is responsible for developing guidelines for the country's overall economic plans.

The 1995 law also introduced a number of new geographic zones where business enterprises could take advantage of various financial assistance programs. In the past, eligible zones were primarily either rural or peripheral in nature often having only minimal infrastructure available for business development. Other problem regions have been identified, such as urban areas characterized by high unemployment rates, lack of education and even deterioration of housing. The three primary areas are as follows:

1. *Zones d'aménagement du Territoire* (ZAT), these zones are graded into different eligibility categories for the main regional incentive program (PAT);
2. *Territoires ruraux de développement prioritaire* (TRDP) these areas are known for their low level of economic development; and
3. *Zones de dynamisation urbaine* (ZDU), areas of urban regeneration.

The urban areas are proclaimed in legislation, while the other eligible areas are carefully depicted on various maps. Specific policy instruments are available depending upon the zone criteria. Assistance is regionally differentiated as to the types of taxation incentives/exemptions, infrastructure development programmes, public service provision or regional incentive programmes which the zone may be eligible for. Superimposed over all of these regional categories are the various European Structural Fund programmes.

For many years, France has had a primary regional incentive program known as PAT (*Prime d'aménagement du territoire*). PAT is a capital grant given to manufacturing and certain service companies based on cost-per-job. The awarding of grants under PAT is undertaken by the Minister responsible for regional development at the recommendation of an interministerial committee.

Another long-time incentive is the Local Business Tax Concession for Regional Development (*Exoneration de la taxe professionnelle*) which is a 100 per cent tax exemption from local business tax liabilities for five years. The Aid to Decentralization (*Aide a la decentralisation*) is an incentive to businesses to relocate outside of the Paris region. Under this program, the assistance offered is grant-based and is intended to reimburse relocation expenses for the company and employees. The newest program, created under LOADT in 1995, is the National Fund for Business Development, FNDE (*Fonds nationals de développement des entreprises*). The program is intended to stimulate the creation and expansion of SMEs.

SUMMARY - FRANCE

Focus	Rural development, urban redevelopment
Governance	EU/France agreement, national policy-making
Impact	Reduce rural depopulation, reduce Paris' dominant role
Instruments	Grant & tax concession programs, awards decided centrally

2.6 Regional Development in Italy

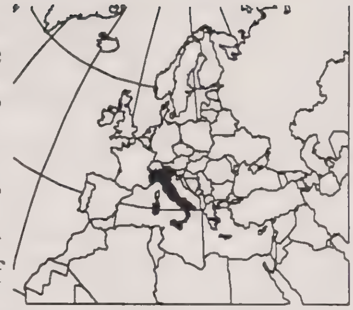


Figure 7 - Italy

Italy's *Mezzogiorno* or southern region, is a contrast to Italy's more prosperous and industrialized northern region. The *Mezzogiorno* has about 40 percent of the land area and 35 percent of the people. In 1993, this southern region accounted for only a quarter of the country's economic output. The two main reasons given for the differences in economies between the north and south are said to be the low level of industrialization in Southern Italy and the peripheral relationship Southern Italian industry has to Europe's markets.

There have been three phases of regional development policy focused on Southern Italy since 1950. In what was known as "the pre-industrialization era", in 1950 the Italian government set up a special fund to aid the southern region. This fund was known as the *Cassa per Il Mezzogiorno*. This was followed by a policy of industrialization enacted by Law 634 in 1957. This Law provided production incentives to entice investment to the Southern Region. These incentives included capital grants and interest subsidies.

The Ministry of State Participation (defunct in 1993) was established to ensure the South three-fifths of all state investment. Industrialization included investment in state-controlled companies, especially between 1959 and 1972. Large, northern private-sector companies, such as Alfa Romeo, Aeritalia and Fiat, were also enticed to invest in Southern Italy. Much of the state investment was earmarked to develop steel and chemical plants but hopes for the development of these sectors were crushed in the aftermath of the oil shocks of the 1970s.

The third era of regional development policy began in 1973, partly as a result of the oil crisis and the subsequent world recession. At this same time, there was a decline in the investment of state-controlled enterprises because of a growing national government budget deficit. Italy's industrial policy for the South changed then to provide social transfer payments to the unemployed. In the place of state-subsidized investment projects, Italy provided companies interested in investment in the South with large tax incentives and subsidized loans.

The most recent phase of regional development policy has focussed on the integration of the major EU programs with Italian programs. A disagreement between the EU and Italy over some designated areas held up progress from 1992 to 1994. Once this was resolved, the Italian government proceeded with two major programs. The rate of award in these programs varied with the EU designated regions in Italy. The Area Development Assistance (ADA)

program provided varying capital grants for projects. These proposals are ranked by area and grants are given once a year until the budget is exhausted. The Area Financial Assistance (AFA) program is a tax-based program where eligible projects can receive tax abatements up to 60 percent of the corresponding ADA grant maximum. There is no competitive element as in the ADA, but the project has to lead to taxable income.

The Italian government also cooperates with more specialized EU programs. The intent is to create jobs through the improvement of the economic competitiveness of all the regions. To do this, there must be increased market globalization, infrastructure development and rationalization of big urban centres. This activity also provides for the reconversion of old industrial areas, the development of disadvantaged agricultural areas, promotions of local products, and the protection of the environment. The development of technologies is also being encouraged.

Whereas previously the Italian government attempted to eliminate the disparity in income between the North and South, today, the focus is on national policy. After the second world war, Italy was a fractured country and regional development policy was meant to integrate North and South through the elimination of income disparities. With the Italian focus now set on attaining the conditions for EU currency convergence as set out in the Maastricht Treaty, the development policy focus reflects national goals such as competitiveness, and not regional issues. The core elements of regional policy are left to the EU.

SUMMARY - ITALY

Focus	Attraction of investment to southern Italy, urban, redevelopment, competitiveness
Governance	EU/Italy agreement, naturally created and administered policy
Impact	Relieve southern unemployment
Instruments	Grants & tax abatements, basic administration through local agencies, NGOs and banks.

2.7 Regional Development in Sweden

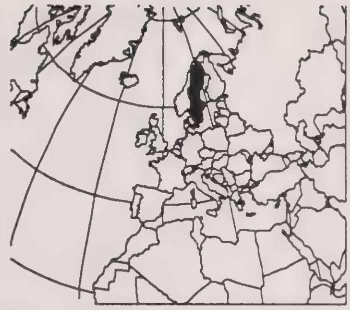


Figure 8 - Sweden

Regional development has long played a part of overall economic development policy within Sweden. Local agencies have worked to strengthen various regions within the country. Under the 'localization' policy of the 1950's and 60's, Sweden worked to achieve regional economic balance and encourage private capital investment in underdeveloped areas of the country. However, a lack of economic incentives rendered these policies largely ineffective. While subsequent regional development policies have been seen as being more successful, they have also been seen as having a greater effect on the overall well being of the country, rather than on individual regions. In fact, some criticisms note that growth in some regions has been at the expense of that in others, particularly when looking at the discrepancies between urban and rural areas.

In 1996, Sweden undertook changes to the delivery of its regional development policy. Under both its Employment and Finance bills, the government sought to restructure the way in which regional development was both seen and delivered. Taking into consideration the different needs of various regions, the new policy seeks to take a more collaborative and holistic approach to the regional development process. This requires increased input at the regional level as well as greater interaction between different areas of policy at the municipal, regional and national levels.

To achieve the policy, regional, national and international industrial policy issues are now overseen by The Ministry of Industry and Trade, thus allowing for the centralized co-ordination of all aspects of economic development policy. However, to ensure that regional needs are also met, direct responsibility for policy relating to development planning, permission and control, and co-ordination of public activities lies with the County Administration Boards. These regional boards seek the input of local companies, organizations and agencies to develop and implement local proposals and initiatives.

The National Board for Industrial and Technological Development (NUTEK), continues to be the main body for government funding, as it has since the 1980s and plays a major role in assisting business which receive regional support funds. NUTEK's primary activities are in the implementation of government policy in the areas of technical research and industrial development, promotion of new and existing enterprises, as well as regional development. NUTEK is involved in the early stages of business development through financing and

advisory services to new and small entrepreneurs. To encourage continued growth, NUTEK also seeks to promote innovation and technological development. In this role NUTEK offers high risk venture capital, which supports the development of new industrial concepts which may have otherwise gone unfunded by traditional sources of financing such as commercial banks.

The County Administration Boards (CABs), are a player in the regional development game. They have the main responsibility for implementing and coordinating regional development measures at the local level. NUTEK provides technical assistance to the CABs and evaluates their performance. They have limited budgets for specific programs and projects.

Swedish regional financial programs are tied to the EU Objective areas in the country by means of differential award rates relative to eligible capital expenses. There are also differentiated rates to encourage SME investments. The flagship program is the Regional development Grant for Hard Investment (GHI), which is a discretionary grant for specific investment projects. Each GHI project has a job creation target that must be fulfilled in order to keep the funds. A second program is the Regional Development Grant for Soft Investment (GSI), which is targeted at product development, marketing and other similar expenses.

Sweden has also managed to keep a number of unique programs upon its entrance into the EU. The Employment Grant is a payment to companies for creating extra employment in the designated Objective 2 areas. The Transport Grant is an automatic program that is designed to help manufacturers in distant Northern areas offset their extra transport costs. The Location Loan program simply provides capital to companies in designated regions that are unable to access normal commercial capital. There is little or no subsidy element involved. Finally, there is a Social Security Concession which gives some employers in designated areas automatic reductions in their social security tax bills. This program is due to be terminated in 2000. A similar program in southern Italy was terminated recently after considerable friction with the EU.

Sweden's regional policy focus changed as it entered the EU. While the level of public financial support for development has remained fairly constant, the large amounts of direct aid of the mid-eighties have given way to substantial increases in structural funding. The priority of such aid has focused on infrastructure improvements and training to improve productivity and competitiveness as well as skills and knowledge transfer. Growth in structural funds aid has not been limited to infrastructure and skills development/employment measures, but also agriculture and urban initiatives. Membership in the European Union and

the World Trade Organization and also economic constraints have also led to limited aid now being offered directly to companies. Regional aid localization subsidies and subsidies to SME's have remained relatively constant.

While traditional distribution of aid continues, a new mechanism of 'development programmes for business in areas with regional policy priority' has been introduced. The objective is to stimulate growth in regions by having companies form networks. A consortium of as many as two hundred companies, universities and research and development centres is formed to facilitate the building of networks as well as the transfer of knowledge. Aid is then directed to these consortia and not directly to the companies. Projects are assessed based on their industrial relevance, size and quality. Support for such collaborative efforts has been very strong.

SUMMARY - SWEDEN

Focus	Development of rural and remote areas, international competitiveness
Governance	EU/Sweden agreement, local agencies administer many programs
Impact	Prevent rural and Northern depopulation
Instruments	Grants, minor loans and tax concessions.

2.8 Regional Development in Norway

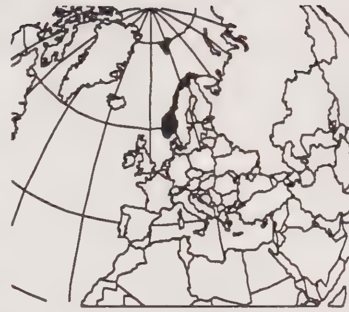


Figure 9 - Norway

In order to develop the country as a whole, regional development policies in Norway have followed the main features of the country's settlement pattern. In recent years this policy has focused on rural and peripheral areas to ensure they enjoy satisfactory welfare services. While the responsibility for overall co-ordination of regional and industrial development continues to lie at the central government level, it has been recognized that it is increasingly important to base regional policies on locally developed strategies. As is the case in many countries, it is now accepted that development encompasses many policy areas and the Norwegian government is seeking to 'achieve a more cross-sectoral and coordinated industrial policy effort between the relevant central government, county and municipal authorities.'

Norway began implementing regional development policies during the post-war period. In 1960, the Regional Development Fund (DU) was set up under the Ministry of Industrial and Energy Affairs (NOE). Following the policy direction laid out by the Ministry, the DU was responsible for specific project assessment and decisional authority up to a specified financial amount. Other specialized development funds developed over the ensuing decades.

In 1993, the DU and other industrial funds were folded into the State Industrial & Regional Fund (SND) administered by NOE. While the administration of the fund is undertaken by NOE, the Ministry of Labour & Local Government also provides regionally oriented schemes. Although SND has representative offices in the regions, the fund is actually administered by counties at the local level. The counties receive an annual budget allocation of SND funds with an established maximum limit per project.

While the municipalities and counties remain responsible for the formulation of local strategies, the desire for such strategies to meet the challenges facing the business sector and national objectives has necessitated considerable co-operation between counties, SND and other government authorities.

Regional development investment-related expenditures are differentiated according to zones. Three zones permit a maximum fund participation of 40, 35, and 25 percent of the eligible project costs. In the 0 percent zone, no business support is allocated, only indirect and municipal support can be applied. The zones are designated according to such critieria as

peripherality, lack of economic diversity and rate of unemployment. In 1996, 25 percent of the population was eligible for business assistance under regional development. Population coverage for total supported areas was 31.5 percent. This overall approach is very similar to that used by the EU.

Under the umbrella of regional development, SND provides loans and guarantees for business support as its primary assistance tool. Loans are generally provided for "material" acquisition and are made when private banks will not lend due to credit or collateral risk. Grants are provided for "immaterial" uses such as education, start-up support, marketing, product development and affirmative action programs.

In recent years the Norwegian government has given priority to the development of competitive new industries by both creating new businesses as well as encouraging innovation within existing firms. SND also provides industrial loans and grants which come under the general industrial support policy. The scope of this assistance is nation-wide aimed at stimulating technology and innovation as well as supporting risky prospective investments. This strategy has stemmed from the need to ensure that all regions of the country experience sustainable and long term growth.

As has been the case in other countries, one way of achieving such growth has been the development and improvement of local infrastructure. While the SND and local bodies continue to offer some form of direct support for business, there has been a fundamental shift from traditional direct-to-business support to the ongoing development of local infrastructure. Regional development programs at the county level have provided much of the funding to achieve this objective. The development of new infrastructure solidifies the base for the growth of industries. Norway has focused much of its infrastructure developments on transportation and information technology, recognising the importance of these to its widely dispersed population.

Norway supports both business and regional development through the Industrial Development Corporation of Norway (SIVA). This agency works to develop business premises, networks, know-how and financing packages. The establishment of such support clusters has been seen as an increasingly important mechanism in developing new businesses, particularly SMEs. Small start-up grants for entrepreneurs have also become extremely important in a regional policy context. Along with national programs to finance and support SME's, municipal development funds are also being used to enhance the development of local industry and in particular are intended to focus on, small projects.

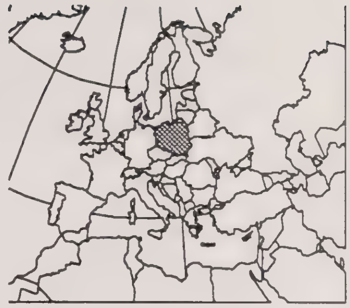
Norway also has a system of tax and transfers to assist regional development. Central government revenues are transferred to local governments based on special indicators including low population density, size of population and location relative to the north. In Nord-Troms and Finnmark, the most northerly provinces, citizens are eligible for special reductions in personal income tax.

Another interesting regional incentive available is the differentiated payroll tax. The maximum payroll tax is 14.3 percent and is then differentiated by zone. Zones are determined according to labour-market differentials and peripherality and are different from the zone descriptions used by SND. Central areas are levied the maximum tax rate which is then decreased to 0 percent in the weakest zones in the north, Nord-Troms and Finnmark.

SUMMARY - NORWAY

Focus	Development of dispersed and Northern population areas
Governance	National government policy and programs, local administration
Impact	Prevent rural and Northern depopulation
Instruments	Grants & loans provided by special agencies and local administration.

2.9 Regional Development in the Republic of Poland



As Poland moves towards a market economy, it continues to undergo many changes to the structure and distribution of regional and industrial development. A country profile of economic activity would show that industrial activity is located either in the west of Poland or around large cities. The eastern border area is the least active economically and is in need of significant infrastructure development.

As a former Communist planned economy, many sectors were overdeveloped to the point of being unsustainable, especially heavy industry, while other sectors went entirely ignored. State aid was viewed as little more than internal transfers. With the transition to a market economy, Poland has had to undertake numerous structural changes in the development of a new economy. Private property rights and the distinction between public and private sectors has become an important first step in the process. The underlying principle of the transition has been one of stabilisation. State owned enterprises and protected industries are now being transformed and privatised to gain efficiency and meet growing competition. The Polish government is looking to encourage the development of small and medium sized business and to support technology and training development. Poland's desire for European Union membership has added further complexity to the task of restructuring its national development policies.

The Council of Ministers' Committee for Regional Development was formed in early 1997 to coordinate the work in the area of regional policy and nationally represents the interests of regional policy in contacts with domestic or international organizations. At present, there is no government agency directly responsible for state regional policy. In 1995, the Polish Government initiated a joint task force on regional development with the participation of the European Union. One of their recommendations was for the creation of a territorial state organization that would be similar in function to DATAR, the organization responsible for regional development in France. Recommendations from the Task Force were approved by the Polish government in September 1996. Since then, their implementation has been only partial.

Regional policy is today administered through existing governmental structures. The Central Office of Planning had been the lead agency for strategic planning and regional development programming. Those activities have recently been passed to the Government Centre for Strategic Studies (RCSS). RCSS has also taken over the ten regional development planning

offices formerly under the Central Office of Planning. These initiatives were part of the recommendation package submitted to the Polish government by the Task Force.

The definition of the structure and geographic shape of regions has yet to be defined. Generally, regions are defined by existing administrative structures. The 49 *Voivods,* similar to North American counties, are subnational levels of government now being used to deliver "regional" policy and planning. They also act as the point of contact for inter-regional programming. Below *Voivods* are administrative units known as *gminas*. A reasonable rendering of these terms would be "counties" and "townships." These two levels of government have been active in the delivery of restructuring programmes funded either by the state or through international aid programs.

Until the government sets up a separate organization for regional development, funding for regional development will continue to be distributed using existing governmental structures. Resources for regional development from the state budget and international aid programs are collected by the State Treasury, then distributed through the various organizations set up to administer funds according to program allocation. At the county level, the *voivod* receives a budget that is an allocated expenditure from the central state budget. Given the current method of budget allocations, the *voivod* has little flexibility to pursue regional policy options. The 1995 report is hostile to using regional policy as an income equalizer, preferring to focus on raising overall incomes that are, by EU standards, very low.

While the Polish government has attempted to restructure industrial expenditures, it is in a difficult position to do so, as aid in Poland is dominated by the past. Large debts and lack of current government financial resources has limited the type and direction of financial assistance. Much of today's aid is not direct resource transfers such as grants and loans but rather takes the form of forgone state resources like tax arrears and concessions and state guarantees. And while government loans with favourable market rates have also become popular, the lack of budgetary resources has limited their use.

To facilitate the distribution of what little loan money does exist for sectoral assistance, the government formed the Agency for Industrial Development in 1991. The agency's objective is to encourage industrial efficiency and assist in the facilitation of the restructuring process. The government has also established working guidelines for industrial development and under the direction of the Ministry of Industry and Trade, Department of Strategy and Policy, these policies are now in the process of being implemented.

As such, Polish industrial policy seeks to encourage the development of exports, the adoption of new technologies and innovation as well as the promotion of structural changes. Furthermore the plan calls for increased support and incentives to stimulate the development of small and medium sized businesses. And while some financial support for SMEs does currently exist, it often goes unspent due to complex procedures and lack of adequate administration.

There has been a noticeable split in emphasis between the activities in support of sectoral reform and those that support cross-sectoral or horizontal structural reform. Most emphasis has been placed on restructuring specific industry sectors. For example, the banking sector was given subsidies for restructuring to provide needed stability and grants are still provided to the state-owned railway and bus services. Cross-sectoral reform has been the most difficult to implement as new institutional structures are needed to be in place before inter-regional investments in infrastructure and other regional programming can be initiated.

As industries have restructured or have been privatized, there has been a drastic increase in the level of structural unemployment. Regional aid that does exist has been used to counteract the impacts of the sectoral restructuring process. Subsidies have been used to help finance investments in infrastructure in areas of high structural unemployment. Subsidies in these Areas are also made available in the form of tax relief programs on capital investments.

Because the idea of regional development is a new concept in Poland, few state funds are allocated for such development. This situation will likely change especially given the favourable acceptance of the Task Force recommendations. There is strong support for regional assistance in the restructuring of industry both within the country as well as within the EU. When Poland is accepted as a member of the EU, the country will then become eligible for structural funding. Most likely, all of Poland will be declared an Objective 1 region similar to Greece, Ireland, Spain and Portugal, (Poland's per capita GDP is reported to be one-third that of the EU average). Under the EU structural fund programs, countries must have identifiable regions and a state organization responsible for regional development with a degree of subsidiarity. Poland must resolve these issues of regional identities and administrative systems or membership from the EU will likely be withheld. This pressure will drive the Polish system to conform soon.

As Poland moves closer to marketization, the process of developing regional and industrial development policies becomes more important. Poland's experience of a planned economy makes the nature and role of development different than that in other European countries.

Much of Poland's future development is contingent on infrastructure improvements and technological and human resource training and the establishment of new industries, particularly those in the service sector. Poland has been building its new economy from the ground up amidst financial and administrative constraints. The process is slow but in the proper direction.

SUMMARY - POLAND

Focus	Restructuring of inefficient industrial complexes
Governance	National departments and agencies, some local administration
Impact	Shift to market economy
Instruments	Grants & tax concessions

2.10 Regional Development in Canada

It is very difficult to identify the wellsprings of Canadian regional development. In part, the general Canadian concern about equality of condition seems to have played a role, as has the constitutional relationship between the federal government and the provinces and the desire of the federal government to mitigate its large social program expenditures through economic growth.

Figure 11 - Canada

Canadian regional development policy was first articulated around 1960, a date that is comparable with policy origins in many other countries. Because of the jurisdictional complexity in the country and its geographical and ethnic complexities, effective coordination of regional development programming and expenditures between levels of government has been a major and continuing challenge.

Besides the relatively large efforts made by provincial governments themselves, regional development policy may be broken down into a number of strands:

1. Heavily rural eastern provinces and margins of other provinces
2. Native reserves
3. Northern territories with dispersed populations
4. Urban redevelopment
5. Special populations

By far, the most important in terms of expenditures is 1. For the most part, it has included 4 & 5 in terms of programming and administration.

The management of native reserves is entrusted to a separate federal department and its activity has had little connection to other federal efforts. In part this is due to the separate judicial status of reserves, as well as the communal nature of property ownership practised on them, which inhibits investment attraction and capital accumulation. Programming has focussed on providing grants and training to entrepreneurs and SMEs.

Economic development in the northern Territories has been promoted through the vehicle of the Territorial governments themselves. The widely dispersed populations and their extreme reliance on federal transfers has meant that federal policy has played a dominant role in

economic development. Federally supported programs have focussed on infrastructure development, especially in transportation and communications and assistance to SMEs.

The most prominent regional development policy effort has been in those parts of the country where rural depopulation has presented a particularly difficult political problem. These areas are the five eastern provinces and those parts of the other five that are at the margins of cultivated territory. These areas include some mid-sized urban centres as well as the large city of Montreal. In recent years, specific SME assistance has been developed for target populations in this area, such as women, youth and disabled people.

Over the past 40 years, regional development policy in Canada has had both an economic and social dimension. At first these were mixed in regional programming, but by 1968, they had separated into distinct program strands. In the early 1980s and in the mid 1990s, attempts were made to better coordinate these strands, but for the most part, they have operated separately.

Both the social and economic policy streams have been characterized by a consistency of approach, though the program instruments used have been many and varied. Social policy has been focussed on a pathological approach while economic policy has had a corporate focus. The pathological approach asserts that the problem of high unemployment can only be overcome if the community heals its division and works in a collective fashion to create jobs. The corporate approach asserts that high unemployment can only be overcome if strong and expanding companies are created and supported.

Program initiatives with a social focus have been focussed on designated high unemployment counties and communities across the country. Local job creation initiatives by community groups have been the preferred *modus operandi*, in this approach but in virtually all cases these activities have stagnated or collapsed once the program funds were no longer available. A list of examples over the past 30 years would run into the hundreds.

Economic development initiatives have been characterized by industry sectoral infrastructure support in cooperation with provincial efforts through formal agreements. A second type of programming, used concurrently with the first, is various forms of business assistance, such as capital grants, loans, and training assistance.

Economic development administration has experienced a number of major shifts. At the governance level, the federal agencies have experienced two continuous trends. The first is

the process of decentralization and recentralization of the regional development effort with respect to the mainstream federal bureaucratic tradition. A department or agency is created which is given some autonomy within the federal bureaucratic system. Over a period of 5-10 years, the agency is gradually pulled back into the traditional administrative system, at which point differing regional pressures build a demand in the regions for a more decentralized agency. Canada is presently at the end of the third such cycle and one can expect a revival of centrifugal forces over the next five years.

A second trend has been cyclical as well. The relationship between the federal and provincial governments has tended to be one where regional development programming at first is focused on the poorest region of the country and then the focus gradually expands until all parts of the country enjoy some form of inclusion. Then the pressure builds to start over with the original focus. Again Canada is at the end of this cycle.

Canadian governments have experimented with a wide range of program instruments over the last four decades. Canada has tried:

1. regional planning
2. growth-pole enhancements
3. industry capital grants
4. large industry focus
5. federal/provincial sectoral plans and agreements
6. separate federal/provincial sectoral plans marketed as joint ones
7. comprehensive business assistance
8. special federal assistance by criteria related to national census districts
9. assistance to troubled large industries in high unemployment areas
10. small business focus
11. repayable business loans
12. information focus
13. single, comprehensive federal/provincial agreement

While some of these instruments have been evaluated, no comprehensive estimate made of their efficacy is available. The Canadian picture thus presents a scene of fairly consistent policy approaches marked by a relatively rapid change in program instruments. Tim O'Neill, writing on definitional issues for regional, economic and community development within the Canadian context, also suggests there has been eagerness to experiment with programming at the regional level,

"...it would be difficult to find another area of economic policy, especially at the federal level, which has been as subject to such frequent adjustments to scope, objectives, administrative structures, and roles of operation as has been regional development policy."[3]

The financing available for regional development has been affected by recent federal efforts to balance budgets. This is not dissimilar to what nearly all federal programs and agencies have experienced. As well, the debate over whether the country should focus on macroeconomic national competitiveness to the deteriment of regional development intervention goes on in Canada, as it has elsewhere in the world. The relative smallness of the regional development funding share both works for the effort and against it. Regional development funding makes up less than seven percent of the size of the social program expenditures directed at the same population. This sum is both too small to seriously alter the regional economic situation but large enough to attract the attention of budget-cutters. Sections 4.0 and 5.0 of this report discuss the Canadian situation and its prospects at greater length.

Budget cuts over the past few years as the federal government has put its financial house in order have contributed to this masked effect. Finally, the rise of neo-conservative sentiment in conjunction with – and partly as justification for – budget cuts has lent an intellectual argument in favour of national market forces and against government mitigation of them.

At present, the four regional agencies in the country have been collected into the Industry portfolio where they are dominated by an Industry department whose focus is quite different from theirs. A significant part of regional economic programming is now repayable loans, which puts the agencies in competition with other private, federal and provincial lending institutions. Once again, it seems that regional economic development policy is at a crossroads.

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[3]Tim J. O'Neill, Regional, Local and Community-Based Economic Development, Community Economic Development, Burt Galaway and Joe Hudson, Editors, Educational Publishing, Inc., Toronto, 1994, p.65.

SUMMARY - CANADA

Focus	Employment growth in rural and dispersed populations
Governance	Federal policy, often negotiated with Provincial and Territorial governments
Impacts	Maintain regional populations for reasons of domestic politics and territorial sovereignty.
Instruments	Repayable soft loans, infrastructure expenditures, some grants, SME assistance

2.11 Regional Policy in the United States

Figure 12 - United Stat

Historically, the United States has had no regional development policy. There are but a few exceptions to this rule. The most obvious are the creation of the Tennessee Valley Authority (TVA) in the 1930s and the creation of a few regional commissions in the late 1970s, of which only the Appalachian Regional Commission survives. A third is the federal role in Western water resource development. A fourth is the remote area program of tax abatements for Puerto Rico.

The TVA was created in the 1930s by the federal government to bring affordable electric power to those who lived in the watershed of the Tennessee River. This encompassed parts of a half-dozen States, all of which at the time were characterized by extreme rural poverty. Besides power, the TVA became involved in many other aspects of economic and social development. The TVA is still in existence.

The Appalachian Regional Commission's boundaries included parts of almost a dozen States and its concerns lie with the impoverished communities inside this mountain chain. Over the 1980s and 1990s, its primary focus has centered on improving the internal highway system in the mountains so as to reduce the isolation of its communities. Some observers attribute its continued existence to the large number of States it affects and the attractiveness of highway construction for federal legislators.

President Jimmy Carter (1977-1981) was instrumental in creating a number of regional development planning and expenditure agencies during his term of office. With the exception of the Appalachian Regional Commission, none of these took root and were disbanded under his successor, President Reagan. The New England Regional Commission managed to develop a strategic plan before its demise, but the plan was never used.

Beginning in the 1930s, the federal government involved itself in the allocation and provision of water resources in the western third of the country. At first, this involvement was designed to provide depression – era employment or flood control schemes, the most grandiose being the Hoover Dam on the Colorado River between Arizona and Nevada. Eventually, these efforts became a multi-billion dollar water conservation and allocation program that helped to develop the population centres of the west and provide irrigation water for vast acreages of farmland. While the west was not the poorest part of the country, it did not have the population to finance and develop these schemes locally. Water storage and distribution

expenditures have continued to this day, primarily through the work of the US Army Corps of Engineers.

From the 1950s on, the island Commonwealth of Puerto Rico has benefitted from a federal program that provided corporate tax relief for manufacturing companies locating there. The aim was to provide alternate employment for the rural farmers who were filling up the island's cities and migrating to the mainland US. The program succeeded in making Puerto Rico the richest of the Caribbean islands in terms of earned income, though this was a fraction of US income. During the 1990s, the so-called 935 Program has been tightened by Congress and its effectiveness has diminished.

The expenditures on defence during the Cold War are often identified as a covert regional development program. The evidence does not hold up in this case. There clearly has been legislative and executive "logrolling" related to the placement of facilities, but the overall expenditures do not appear to have a regional bias. Larger training bases are located in southern areas where population densities are lower and the climate allows for year-round standardized training programs. Research establishments are concentrated in the northeast and California where similar civilian research sites are located. Exceptions such as nuclear labs are or were sensibly located away from population centres in Tennessee, New Mexico, Nevada and Idaho. Defence manufacturing tends to lever off on existing manufacturing centres and climates. Allocation of contracts depends most often on legislative bargaining and instances of development related policy appear to be rare.

Tax incentive and grant programs do not have a regional bias to them. A geographic bias enters into the equation only in the case of inner city redevelopment or rural income support. Both of these cases have no specific regional restrictions, however.

The lack of a regional policy or program bias is not rooted in a basic equality of incomes or physical condition across the country. The range of State per capita incomes is almost 2:1, not appreciably different from those in Canada or Europe. There are well defined areas with significant relative poverty, yet there have been few regional programs. Part of the explanation is rooted in American history: the trauma of the Civil War 130 years ago has left the US federal government very wary of trying to accommodate development or other pressures on a regional basis. Identification is with the nation and not with its parts.

Over the past 20 years, active economic development has been left to the State governments, while the federal government has focussed on broader issues of competitiveness. All the

States pursue some kinds of economic development policy and much of what they do has had intrastate regional effects. The US governments tend to have a broader reliance on tax-relief programs than do other countries, but there are many grant-based programs as well. Much of what is done is sectorally focussed rather than overtly geographic in nature, but they obviously have geographic effects.

Secondly, the less-disciplined legislative branch and the need for the executive to accommodate its pressures mean that expenditures have tended to be distributed on a local basis within a national framework. Location-specific deals tend to be reached by shifting coalitions of legislators and officials across the national scene.

SUMMARY - UNITED STATES

Focus	Infrastructure development and unemployment reduction
Governance	Primarily State government activity, few federal programs
Impact	Relieve specific sectoral and labour migration problems
Instruments	Primarily tax concessions, some grants, military. infrastructure activity

2.12 Regional Development in Mexico

Figure 13 - Mexico

Even though Mexico is a federal state, the imbalance between federal revenues and state and local revenues is such that the country acts as a unitary state. Where Canada's federal revenue is about 50 percent of total government revenues, in Mexico this figure is closer to 90 percent.

As best as can be determined, Mexico has had 5 different attempts at regional development policy since the Revolution early in this century. The first move was to improve the lot of rural poor by distributing farmland to them through a system that could only be described as humane collective farms, or *ejidos*. The second policy was one of developing large state enterprises based on the model of the National Oil Company. These enterprises were then protected from outside competition by heavy tariff duties. Again Mexico was pursuing a humane version of communist state enterprises. As in the Soviet bloc, the facilities of state enterprises could be located in areas where politics as much as economics dictated.

The third approach attempted to promote employment through heavy initial investment in coastal tourism and resort complexes. Development in Acapulco, a city in Guerrero and one of Mexico's poorest states, was followed by a greenfield site in the Yucatan peninsula state of Quintana Roo called Cancun. Eventually the Cancun developments were extended as were new greenfield sties on the Pacific north and south of Acapulco.

The fourth approach took place along the Mexico-US border with the institution of the *maquiladora* program. The Mexican constitution prohibits foreign ownership of land along the borders of the country. This prohibition plus the need for extensive infrastructure requirements required federal intervention if there were to be significant foreign manufacturing investment in the border areas. The success of this border program led the federal government to encourage major investment in road infrastructure in the interior in order that other parts of Mexico might be able to participate in attracting manufacturing investment. Much of this new investment has been in privately-owned-toll expressways, the state rail system being inadequate for the increased freight haulage needs.

The fifth approach, since 1996, has been to identify those regions of states, and states as a whole, that are particularly poor and to provide special programs for them. The areas identified include the central and southern Pacific coast zone, inland mountain areas and much

of the Yucatan peninsula. While the initial program for these areas focuses on social and income needs, there is the suggestion that economic development programs may be associated in the future.

Because the development needs of all Mexico are so pressing, the tendency has been for the federal government to focus on encouraging growth anywhere that conditions appear promising. The *ejidos* program, the tourism complex program and the new regional social program have been focused on particularly poor areas, Mexican state per capita income differentials being on the order of 5:1 or double those in developed countries. State enterprises, especially oil-related ones, and the Maquiladora program have assisted growth in better-off areas.

SUMMARY - MEXICO

Focus	Employment and income growth nationally
Governance	Federal departments and public corporations
Impact	Develop business facilities that can provide employment
Instruments	Direct provision of facilities

2.13 Regional Development in Chile

Figure 14 - Chile

There is no official policy on regional development followed in Chile. During the period of military rule between 1973 - 1990, the idea of government non-intervention within the economy took hold. No public policy focuses on the redistribution of income throughout the country. Instead, to promote economic prosperity, Chile follows a resource development policy. The government supports this policy with different sectoral investment programs. Because of the geographic dispersal of the country's resource endowment, this policy has regional effects. In terms of the dominant regions primarily characterized by the type of resource activity which is pursued, Chile divides into four zones as follows:

1. The Desert North Area, which is dominated by mining, including copper, gold and silver;
2. The Central Valley Area, which includes Santiago runs approximately 200 to 300 miles southwards. This is largely irrigated for food production;
3. The Southern Area, which is concentrated on forestry and fishing plantations. The forestry plantations are replacements for the already harvested native rain forests while the fish farming is concentrated on growing Atlantic Salmon; and
4. The extreme South and the Chilean Antarctic which are very sparsely populated.

Typical of the Latin American country model, Chile has one, large central capital city, Santiago, which also serves as the primary service provider for the country. The other major centre is the city of Valparaiso which is about 50 miles north of Santiago and is the legislative capital and major port facility. Demographically, compared to other Latin American countries, Chile is unusual in not having a large indigenous population.

Under its investment programs, the Chilean government has provided sector specific programmes that encourage development in mining, forestry and fishing. One such example during the 1970's was the subsidization of up to 75 percent of the establishment costs of a forestry plantation. Domestic criticism has been levelled at the generosity of the Chilean government in some of these sector programmes.

Chile does support some minor programs that have regional effects. Most of these are tax concessions. Enterprises in the extreme South of the country are not levied the "first-category" income tax which is a flat 15 percent on corporate income. There are also some tax incentives for forestry industries, oil exploration and venture capital companies. Regional companies in the north and south of the country may be eligible for hiring bonuses if their employment levels increase.

Finally, Chile has designated the city of Puentas Arenas in the extreme south and towns in the desert north as free-trade-zones. Companies may import goods duty-free for processing or storage. They also enjoy special tax concessions related to the free-trade zone. Such zones are relatively common in the US and many other countries.

SUMMARY - CHILE

Focus	Sectoral development, some geographic concerns
Governance	National departments
Impact	Promote industrial activity in remote areas and strategically important sectors
Instruments	Tax concessions, duty abatement, employment bonuses.

2.14 Regional Development in Australia

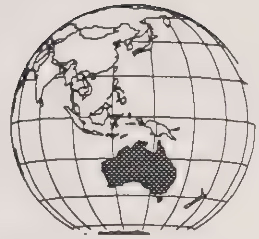

Figure 15 - Australia

The election of a conservative government in 1996 has provoked considerable change in the nature of regional development policy in Australia. In a recent speech a senior executive of the Department of Transport and Regional Development put it this way:

> "The Australian government's starting point is its belief that the prosperity of Australia's regions...hinges on their ability to participate successfully in the national and international economies... Rather than seeking shelter from change regions need to embrace it...It seems inconceivable that regional Australia as a whole could gain by turning its back on the process. [of globalization] Rather, what is now needed is a drive to compete even more fiercely to exploit the opportunities that are opening up."

> While this pro-business outward looking orientation is at the heart of the new policy it also recognizes that "impact will vary form place to place...There is also a need to address issues that are particular to regions."

Regional Australia (RA) is defined not so much by geography as by population. The Ministry defines regional Australia as areas with population centres of less than 100,000 people. In 1996 approximately 25 percent of Australia's population lived in these areas. Regional Australia has an unemployment rate of about 10.1 percent compared with a national average of 8.7 percent in metropolitan areas. The population over 65 in RA also tends to be growing at a much faster rate than the rest of the country. It is interesting to note however, that between 1984 and 1994 manufacturing employment in RA grew by 38 percent compared with a drop of 16 percent in metropolitan areas.

There are also significant variations between regions. For example between 1991 and 1996 employment in Far North Queensland (FNQ) grew by 9 percent while falling .4 percent in the Hunter region. Similarly, unemployment in FNQ is well below the national average at 6.7 percent.

Like Canada, Australia has a system of fiscal equalization designed to enable a national average standard of public services. Under this system general national government revenues are divided between the states by the Commonwealth Grants Commission.

Under this system less developed areas receive higher per capita grants than more developed ones. This equalization formula is a major form of redistribution and regional development.

Regional development policy is primarily the responsibility of the Department of Transport and Regional Development. There is also a Minister for Regional Development, Territories and Local Government. Both of these Ministers are members of the Ministerial Working Group on Regional Affairs, which also includes the Ministers of Trade, Employment, Environment, Industry and Small Business.

The government has introduced or refined a number of programs for Regional Australia. Recent initiatives have included the development of Regional Forest Agreements between the national and state governments. These agreements provide funds for a forest reserve system and to assist with sustainable management practises.

Under the National Heritage Trust program the government has earmarked funds for the revitalization of the Murray-Darlington Basin area, one of Australia's most important agricultural areas. This includes funds for capital projects as well as environmental rehabilitation.

The Regional Minerals Program is intended to facilitate mineral investments by having national and state governments work together to identify mineral resources, estimate potential for minerals processing in selected regions, coordinate planning and services and streamline regulatory processes.

The Regional Telecommunications Infrastructure Fund provides A$250 million over five years for the development of new services and infrastructure. The government is also developing a new Integrated Rural Policy Package which will deal with disaster relief, farm development and training and rural community development. The Supermarket to Asia program also designates funds for enhancing Australian agricultural exports.

In the employment area, a new program, Assistance to Depressed Regions, has recently been inaugurated. The program provides funds to regions with high unemployment levels to assist in structural change, diversification and retrenchment. There are also youth employment, entrepreneurship and small business and training components. These programs are developed in coordination with Area Consultative Committees of local stake-holders.

The Credit Care program provides financial services to rural and remote areas of Australia. The program is a co-operative venture between the national government and the Credit Union Services Corporation. The focus is on access to credit rather than rate subsidy.

Tasmania receives several special assistance programs including a freight equalization scheme, subsidies for ferry transportation and environmental projects in improving water quality and enhancing the Tamar River area.

Although these regional programs are important, the new focus at the Australian federal level has clearly moved to national programs with regional benefits and away from the creation of specific programs for the benefit of regions. As in the US and Germany, the Australian States are also active in industrial investment attraction and SME development programs.

SUMMARY - AUSTRALIA

Focus	Rural infrastructure and employment adjustment
Governance	Joint federal/state agreements
Impact	Ensure rural competitiveness
Instruments	Primarily joint government expenditure programs on infrastructure and training.

2.15 Regional Development in Japan


Figure 16 - Japan

Japanese regional development policy is driven by considerations of land and population. With a land area of about 377,000 square kilometres, less than 50 percent of which is habitable, and a population of over 125 million, the allocation of land and distribution of population are critical to long term development.

About 43 percent of Japan's population lives in the three eastern cities of Tokyo, Osaka and Nagoya. Between 1955 and 1993, the population of Tokyo increased from 17 to 26 percent of the national total. Similarly, Tokyo accounts for 31 percent of the national GDP, while Osaka and Nagoya account for a further 24 percent. Tokyo hosts 80 percent of the foreign firms with investments in Japan and over 60 percent of the head offices of Japanese corporations. This concentration of population and economic activity in the urban centres and a corresponding depopulation of rural communities is the central problem of Japanese regional development.

While the distribution of population and economic activity is highly skewed toward the urban centres, per capita incomes across the regions are equitable relative to many countries. For example, excluding Okinawa, none of the nine regions had a per capita income less than 80 percent of the national average. Further, differences in per capita income between the highest and lowest regions were reduced by almost half between 1960 and 1985. More recently these differences have begun to widen again. In its final review of the Fourth National Development Plan, in 1994, the National Land Agency concluded that while Tokyo continues to attract a high population inflow and a disproportionate share of economic activity, provincial and local cities have made some inroads and the rate of growth in the capital has slowed.

Japanese regional development policy attempts to develop regional infrastructure and investment in technology and support services. Japanese regional development is usually said to have experienced four phases: Recovery (1945-60), High Growth (1960-73), Stable Growth (1975-85) and Restructuring (1985-Present). In the second of these periods many of the problems of concentration, which continue to plague Japan, began to develop and be addressed. In this period laws restricting industrial development in the four major cities of the east coast appeared. Promotion of the concept of a "Pacific Coastal Belt" sought to direct development outside the Tokyo area.

In 1962 the approval of the first National Development Plan began the formal process of regional development policy. This was followed by a second plan in 1969, the third in 1977 and the fourth, and most recent, in 1987. Within the National Development Plans significant national legislation has also spurred regional development policies. In 1972 the Industrial Relocation Promotion Law was enacted. It aimed to provide financial incentives to firms to relocate in designated areas outside the metropolitan centres. In 1983 the Technopolis Law promoted the creation of high technology industrial complexes in designated areas (26 such areas currently exist). Using financial incentives and tax measures the program sought to create technology centres in "environmentally attractive regions with a relatively low concentration of industrial activity...".

The Fourth Comprehensive National Development Plan (1987) aimed to promote a multi-polar land development policy through investment in infrastructure, especially information technology, outside of Tokyo. The technopolis concept was supplemented by the Brains of Industry Location Law in 1988. This legislation advocated the concentration of industrial support services, such as software, information processing and design in the regions to encourage more sophisticated industries in the technopolises. To this end, 16 industries were designated as eligible for financial incentives.

In 1992, the Regional Base Law encouraged the relocation of administrative services to the regions. The law set out national guidelines under which prefectural governors could designate "base areas" in which municipal units would work together to "exploit the creative and innovative potential of regions." The so-called "Office Arcadia" portion of this initiative has resulted in the designation of 70 areas where the government has enhanced infrastructure to provide attractive locations for administrative relocations.

Regional development policy-making functions are highly dispersed in Japan and also often over-lapping. National Economic Plans are the umbrella instrument which identify national goals and strategies and within which regional development must operate. The National Development Plans discussed above, are prepared by the National Land Agency. Prefectures, municipalities and regional development agencies (for Hokkaido and Okinawa) also prepare their own development plans. The Public Investment Plan deals with allocating investments in public infrastructure within the NEP. These plans are drawn up on a five year basis.

The Industrial Location Plan provides detailed concepts and priorities for regional policy. It defines the location priorities over a ten year period. The plan is constructed by the Ministry of International Trade and Industry (MITI) and defines incentives, development controls and

other promotional and restrictive instruments. There are also promotional plans for special areas such as outlying islands and mountain villages. Much of the responsibility for implementation and interpretation of the plans rests with the prefectures.

Many government departments are involved in the planning process. The key department for regional development planning is MITI, supported by such organisations as the Foreign Investment in Japan Development Corporation (JETRO), the Industrial Structure Improvement Fund and the Small and Medium Enterprise Agency.

The Japan Development Bank (JDB) is a key organisation with respect to the provision of financial support. It provides low interest loans for investment in plant, equipment and R & D. In North Eastern Japan the Hokkaido-Tohoku Development Finance Public Corporation (NEF) provides low interest loans for industrial development in that region.

The Japan Regional Development Corporation is the main agency which develops industrial parks, research parks and new towns throughout Japan. It is currently responsible for supporting the development of "regional core cities" and industrial relocation. The promotion of small and medium size firms is carried out by the Small and Medium Enterprise Agency, which acts mainly in the area of planning. Implementation is carried out by government finance agencies such as JDB, the Japan Small Business Corporation and chambers of commerce.

Finally, several other agencies with regional planning responsibilities report directly to the Prime Minister's Office. These include the National Land Agency, which deals with land use and with regional policy co-ordination across the various departments and agencies, the Economic Planning Agency, which prepares the National Economic Plan, the Hokkaido Development Agency and the Okinawa Development Agency.

The evaluation of regional policy in Japan places less emphasis on specific micro-economic targets but rather, tends to focus on macro-economic indicators of success such as population changes, employment, income and output. Using these measures there is some basis to suggest success. Provincial urban centres are growing strongly and migration to the major cities has slowed. Regional income disparities dropped sharply between 1960 and 1985 but have risen somewhat in recent years. Targets for industrial output in the designated areas, set in the National Development Plan, have largely been met. The share of industrial output accounted for by Tokyo and other major centres has fallen from 18 percent in 1985 to 15 percent in 1992 with a target of 11.5 percent by 2000. At the same time the share of targeted

regions has grown from 27 to 32 percent.

Even so the data also indicate that economic activity is still highly concentrated. While the urban areas are not as dominant as in the past, the regions which have benefited are for the most part inland bordering prefectures of the three major cities. There may only have been a slight geographical expansion of economic activity around the major centres. Outlying areas have been almost stagnant and some, such as Hokkaido, declined in the 1975-92 period.

The technopolis and "brains of industry" policies have achieved some success. In the 1987-91 period technopolis zones exceeded national average annual growth rates for output, high tech factory location and employment. Disparities in new plant formation also decreased following the advent of technopolis policies. Similarly, designated "brains of industry" zones have seen above average employment shares in knowledge intensive industries.

It is less clear however that technopolis has been successful in establishing long term high technology industries. Much of the industrial development has stemmed from branch plants with lower technology content and few local linkages and spin-offs. The disparities in research and technology activity across Japan remain wide. R & D remains heavily concentrated in the three main cities. The level of value added in technopolis areas is still below the national average, which is dominated by Tokyo, Osaka and Nagoya.

SUMMARY - JAPAN

Focus	Industrial and population deconcentration
Governance	National departments and agencies
Impact	Move people and businesses to areas with lower population density
Instruments	Infrastructure provision, administrative "guidance", grants & tax concessions.

2.16 Regional Development in South Africa

Figure 17 - South Africa

To no one's surprise, regional development policy in South Africa has taken on radically different dimensions since the end of apartheid with the elections of late 1994.

Between 1960 and 1994, South Africa attempted five different regional development policies. By and large, all of these were focussed on the traditional Western notion that regional development means the attempt by government to bring jobs to where people live, rather than just accept market-led notions of growth and migration. However, the South African variant on this approach was based on the pressures of maintaining the system of racial separation, or *apartheid*. Since blacks were to be concentrated in "reserves" or "homelands", jobs had to be brought to them, rather than accept massive illegal or administratively controlled migration.

The earliest instance of such a regional approach came in 1940, when a public corporation, the Industrial Development Corporation, was empowered to give incentives to textile and clothing manufacturers to locate their labour-intensive facilities near the "reserves". This was an isolated instance and no real policy emerged for 20 years.

In 1960, as part of the overall *apartheid* policy, a Permanent Committee for the Location of Industry was created to oversee a wide-ranging incentive program to increase industrial decentralization to the borders of the "reserves". The incentives included subsidies for transportation, factories, housing, electricity and water. As time went on, political pressure resulted in the expansion of the program to include areas where other racial groups than blacks lived and ultimately included parts of metropolitan areas.

A second policy was tried with the Physical Planning and Utilization of Resources Act (PPUR) in 1967. PPUR was a semi-authoritarian reaction to the failure of the 1960 policy to create significant numbers of jobs near the "reserves". It designated 37 developed urban areas where the government could constrain industrial growth. The reaction of businesses to PPUR constituted an "investment strike" in 1968-69, and the policy was dropped. Instead the government reverted to even more generous subsidies in the early 1970s, which did not have serious effect either.

A third policy was undertaken in 1975, with the National Physical Development Act. This Act created 38 development regions across the country, ranked in a hierarchy:

1. metropolitan areas;
2. growth poles;
3. principal towns; and
4. growth points.

The "reserves", now called "homelands", were left out of this hierarchy. The focus of the new policy was the interconnection of all parts of the country through new infrastructure and the reliance on growth pole theory as the economic driver. It would appear that the beginnings of the global boycott against the South African regime forced the government to refocus its efforts on growth and away from the geographic distribution of industry.

The Good Hope Conference in Cape Town in 1981 marked the start of a fourth policy. The Conference led to an admission that the black "homelands", while considered by South Africa to be autonomous or independent after a fashion, had not been able to create their own economies independent of South Africa. The Regional Industrial Development Programme (RIDP) was created in 1982. It treated all of South Africa as a single economy and provided what was then called "the most generous [subsidy program] in the world." Entrepreneurs in all parts of the country, except for those in major metropolitan areas, qualified for incentives, A Panel of Experts, retained to review the RIDP in 1989, reported that it suffered from an excess of development areas, weak physical and institutional support in many of these areas and from the creation of too many firms whose existence depended on subsidies, rather than having some intrinsic economic viability.

The result was an overhaul of the RIDP and a fifth policy. The new RIDP required that incentives be based on the capital invested by the entrepreneur and on the profitability of the firm or facility in the first three years of its existence. The country was divided into three zones, with the major metropolitan areas receiving no incentives, the areas surrounding these areas receiving some incentives and the rest of the country eligible for full incentives. This moved the RIDP away from simply compensating for spatial disadvantages. The aim was to develop a balanced growth strategy that was, except for the zones, geographically unbiased and politically unbiased, given the simple mechanical rules that applied to the RIDP.

The sixth policy came as a result of the end of the *apartheid* government and the establishment of majority rule in South Africa in late 1994. In that year, the party supported by the majority of South Africans, the African National Congress (ANC) published a national development strategy called the Reconstruction and Development Programme (RDP). It was a strategy that tried to look out 25 years to a time when all South Africans would have basic public services and private employment.

As the RDP emerged as government policy in 1995 and 1996, its economic development aspects centred around the concept of local economic development, (LED). LED is known in North America as community economic development.

The South African variation of community economic development was first put forth by an industry sponsored think-tank called the Urban Foundation in a report in 1994. This report called for a shift from national top-down economic programs to community based activity that would also encompass considerable privatization and entrepreneurship. Its model appears to be a combination of US urban development devices and aspects of the "rethinking government" movement. In 1995, the South African National Civic Organization merged the LED concept with a broader idea of community development and municipal decentralization. At about the same time the Department of Trade and Industry released a White paper on a National Strategy for the Development and Promotion of Small Business in South Africa. It focussed on the need for widespread job creation, economic growth and equity in South Africa. The combination of LED, community development and small business assistance provided the governments' RDP with a means to try to provide for job growth in all parts of the country.

In late 1995, the government released two RDP documents, a development strategy for urban areas and one for rural areas. No spatial distinctions were made other than these two. The rural strategy admitted that LED was most appropriate for urban areas but felt that two aspects could be used in rural areas. The first was the provision of local market facilities in order to improve the circulation of money in the poorest areas, those of the former "homelands". The second was assistance to entrepreneurs in rural areas where products and services might be lacking. In some cases this might imply local import substitution in order to supply goods and services to local RDP social development projects.

The focus of the South African government is not unlike that in many Third World countries where all parts of the country need basic services and economic growth. However, because

it has a large developed economy as well, the country would seem to have the resources for a measure of success, provided they are used effectively.

SUMMARY - SOUTH AFRICA

Focus	Employment growth in all parts of the country
Governance	Departments of the National government
Impact	SME development, local marketplace infrastructure
Instruments	Grants, loans, provision of facilities.

3.0 Comments on Regional Development Policies

3.1 An Overview of National Policies

Regional development policy appears to be quite consistent across countries. Most exceptions appear to be due to ideological considerations (US, Chile) or as a result of them (Poland). Most policies emphasize either tyring to keep people in place by attracting a developing industry into the designated areas or, in the cases of Japan and France, trying to get people to move out of an overcrowded metropolis area.

Table 1 is an attempt to bring together rough descriptions of the four dimensions of regional development policies in the 15 countries (plus the EU) studied. The listing is not exhaustive, but it does point to a general consistency of focus, governance, impact and instruments, This means that either regional development problems are more or less the same worldwide, with a few exceptional problems, or that each country borrows ideas and programs from the others. It is hard to say which is true but we suspect there is a mix.

Table 2 is a re-rendering of Table 1, which compresses the information even further. The use of a set of numbers is an attempt to further show how countries may do things in a similar or in a different manner. The Table clearly shows how the EU has managed to make most of the Governance and Instruments items consistent across member countries even though the Focus and Impact of policy may differ from country to country. The conflicts that this process has engendered are discussed below in section 3.3.

TABLE 1. THE FOUR DIMENSIONS OF REGIONAL DEVELOPMENT POLICY

COUNTRY	FOCUS	GOVERNANCE	IMPACT	INSTRUMENTS
EU	Areas with disparities, comprehensive approach	EU/National agreements	Improve employment	Grants & special agencies
Ireland	National development, some regional	National control as whole country is EU Obj.. 1.	Reduce unemployment	County admin., grants & loans
UK	Urban redevelopment, rural unemployment	EU/UK "map"	Reduce unemployment, SME assistance	Special agencies, Grants & Loans.
Germany	Reconstruction of E. Germany & urban redevelopment	EU/Germany/ Laender	Reduce unemployment	Grants & soft loans for investment
France	Rural development, urban redevelopment	EU/France agreement	Reduce rural depopulation, reduce Paris dominance	Grants & tax concessions decided centrally
Italy	Attraction of investment to southern Italy, urban redevelopment, national comp.	EU/Italy agreement	Reduce unemployment	Grants & tax abatements, administration through local agencies, NGO's, banks
Sweden	Development of rural and remote areas, international comp.	EU/Sweden agreement	Reduce rural and northern depopulation, international comp.	Grants, minor loans & tax concessions
Norway	Development of areas with dispersed population	National policy, some local admin	Reduce rural and Northern depopulation	Grants, loans, special agencies & local admin.
Poland	Restructure of inefficient industrial complexes	National & agencies & local admin	Shift to market economy	Grants & tax concessions

TABLE 1. THE FOUR DIMENSIONS OF REGIONAL DEVELOPMENT POLICY

COUNTRY	FOCUS	GOVERNANCE	IMPACT	INSTRUMENTS
Canada	Employment growth in rural & dispersed populations	Federal policy & Fed/Prov agreements	Reduce unemployment & maintain local populations, protect territorial sovereignty	Repayable, soft loans, infrastructure expenditures, SME assistance
USA	Infrastructure development and unemployment reduction	Primarily State government activity, little federal money	Relieve sectoral and labour migrations problems	Tax concessions, some grants, military infrastructure activity
Mexico	National employment and income growth	Federal department and agencies	Develop business facilities that can increase employment	Direct provision of facilities
Chile	Sectoral development, some geographic concerns	National departments	Promote industrial activity in remote areas and strategically important sectors	Tax concession, duty abatement, employment bonuses
Australia	Rural infrastructure and employment adjustment	Federal/state agreements	Ensure rural competitiveness	Infrastructure provision
Japan	Industrial and population deconcentration	National departments and agencies	Move people and businesses to areas with low population density	Infrastructure, administrative 'guidance', some grants and tax concessions
South Africa	National employment growth	National departments	SME developments, local market-place infrastructure	Grants, loans, provision of facilities

TABLE 2. A THEMATIC APPROACH				
COUNTRY	**FOCUS (1-6)**	**GOVERNANCE (7-9)**	**IMPACT (10-12)**	**INSTRUMENTS (13-16)**
EU	1	7	10	13
Ireland	2	8	10	13
UK	3	7	10	13
Germany	4	7	10	13
France	3	7	11	13
Italy	3	7	10	13
Sweden	5	7	11	13
Norway	5	8	11	13
Poland	6	8	12	13
Canada	5	7	10	14
USA	6	9	11	15
Mexico	2	8	10	16
Chile	2	8	12	15
Australia	5	7	12	16
Japan	4	8	11	16
South Africa	2	8	10	13

Numbering Code:

FOCUS
1. Disparity areas/comprehensive approach
2. National development first
3. Urban & rural development
4. Urban problems only
5. Rural development only
6. Misc.

GOVERNANCE
7. Federal/Provincial or equivalent
8. National control
9. Local control

IMPACT
10. Employment related
11. Grants & tax concessions
12. Misc.

INSTRUMENTS
13. Grants & tax concessions
14. Soft loans
15. Tax concessions
16. Facilities provision

3.2 National Styles of Regional Development

Table 3 is an attempt to look at "styles" of regional development. It is, in effect, a diagram of the focus of policy in a different way. Most of the countries try to deal with the problem of income and employment disparities, yet some are concerned with demographic effects and others with structural impediments (land reform, infrastructure, resource industry competitiveness). Finally, some countries have a clear bias toward national development, with little concern for how it is territorially distributed.

Table 3 presents these as a matrix. Along the vertical axis is the dichotomy between national development (the EU uses the term "cohesion") and geographic and demographic concerns. Along the horizontal axis is the dichotomy between employment concerns and concerns over structural impediments to development. The distribution of countries is impressionistic but based on the material assembled for this report. It should be noted that factors such as Governance and Instruments are neglected in this rendition.

The "styles" matrix uses the following general definitions:

- **cohesion** - countries are focussed on overall economic development preoccupation
- **employment disparities -** resulting from industrial restructuring or rural under-employment
- **economic disparities -** resulting from the structure of economic activity, lack of infrastructure, remoteness
- **demographic and geographic issues** - resulting from population concentration or dispersion; issues of migration are highlighted.

Table 3. National Styles of Regional Development

COHESION	
Poland • Mexico • Chile • USA **STRUCTURAL**	• South Africa • Ireland **EMPLOYMENT**
DISPARITIES • Sweden • France Australia • Norway • Germany • Japan	**DISPARITIES** • Canada • UK • Italy
GEOGRAPHIC & DEMOGRAPHIC FOCUS	

3.3 Conflict in EU Regional Development

In the context of economic globalization and government policy change, the practice of regional development within the European Union is interesting to observe. The review above of European national policy approaches to regional development quickly shows how these intertwine with those of European Union (EU). To review only national regional programming and then not relate that to the corresponding EU policy would be to provide only part of the story. From this review of several European countries, each country more or less retains its own national regional development policy. Some countries retain a very distinctive hold on their regional development activities such as France, while other countries such as Germany and Italy have moved closer towards policy integration between their own and European Union policy. From a North American perspective, these national and EU policies are sometimes indistinguishable and often get confused.

The EU's regional development directorate, DG-XVI, sets the rules for acceptable intervention that will be applied throughout each member country. Although the EU discourages broad territorial coverage by national governments' regional development assistance and financial largesse, each country is expected to maintain an institutional infrastructure that will enable partnering between DG-XVI and local regional agencies. By keeping control over the eligible territorial area and the amounts of financial assistance made available, the EU is trying to deter national governments from creating situations that would result in unfair competitive advantage within the Union itself. One of the most sought after prizes is the mobile investment opportunity.

In light of the 1999 currency convergence and the strengthening integration of economic and monetary policy, the demand for regional development continues. Regional development is pursued to elevate all national units to the minimum economic standard. It is believed that as more countries maintain this standard, there will be greater overall stability within the Union. Ultimately, EU regional development policy is intended to even the playing field so that all member nations can offer equally competitive locations and sustainable economic activity.

The amount of EU regional assistance provided is based on the percentage difference from the average for unemployment and per capita income. Initially, given the similarities in economic and political structures among the founding countries, differences were not that great. As peripheral countries have joined which lack infrastructure or which have geographically isolated communities, there has been a need to expand the types of assistance that would bring these economies up to the average. The need to develop and expand

assistance will continue as new countries from Eastern and Central Europe, with their own special development problems, join the EU. As long as member countries indicate the existence of economic disparities, the European Union will likely continue providing regional development assistance.

One of the interesting aspects of regional development policy in Europe is how it has responded to the change in country characteristics as well as to the effects of structural change within markets. Regional assistance has always been available for infrastructure development, especially for those areas along the periphery of central economic activity. This assistance has now expanded to include areas geographically isolated that require transportation subsidies to maintain a level of competitiveness with other, more central areas. Regional assistance has also expanded to include sites within larger urban areas which now require redevelopment. Formerly vibrant industrial zones have become desolate and experience high unemployment as technology and demand reduces the labour force required for heavy industry.

The delivery of European Union assistance is not without conflicts and constraints. National programming and assistance is closely watched by the Competition Directorate of the EU, DG-IV. Mobile investment is aggressively sought after by all countries and incentives are offered to companies interested in relocating. The Competition Directorate closely monitors all incentive packages to ensure national governments are not unduly influencing mobile investment decisions. They can require that funds acquired from excessively generous packages and "stacking" above 70 percent of eligible project costs be paid back.

With the impending membership of former communist countries, member countries along the periphery such as Ireland, Portugal and Greece, are aware that continued assistance to them from regional structure funds may be diluted or placed in jeopardy. Of all these countries, Poland is said to be the most advanced along the capitalist road and yet its per capita income is only one-third that of the EU average. Other intended members' economies appear to be in worse shape. Assistance, especially under infrastructure programming, will be needed once these countries become full members. The ability to deliver assistance will be hampered depending upon the infrastructure available to deliver it. The EU is already addressing this issue through its Cohesion Funds.

Conflict has also arisen between the more developed countries and the EU bureaucracy. Programming in Italy was held up for two years over a dispute about the eligibility of some Italian areas for Objective 1 funding. The complexity and prospects for a variety of EU funds

is pushing various countries' county and urban governments to establish liaison offices in Brussels in order to assure themselves of more funds. This bypassing of national authorities is not unlike American States and municipalities competing by establishing overseas trade and investment offices or, for that matter, lobbying offices in Washington, DC.

As the EU becomes more dominant, one can expect to see more of these triangular disputes over the allocation of funds and the relative power of each jurisdiction.

4.0 Canadian Practice in an International Context

Briefly, there are a number of comments that can be made about the Canadian experience relative to other countries and the EU. These comments parallel the four dimensions of regional policy noted above.

The focus of Canadian regional development efforts has consistently been on reducing unemployment in the more "densely" settled rural areas of the country, primarily in the eastern regions. Regional development policies are small relative to the income transfers that Canada provides. Regional development in this context can be seen as a method to use some of the money that would otherwise be transferred to support consumption efforts to stimulate employment that might absorb some of the potential recipients of social programs. Since this approach potentially has more long-term leverage than income transfers, the puzzling question is why regional development absorbs such a small proportion of federal budgets. The long-term impact of a significant regional development policy could have a considerable positive effect on budgetary resources.

Canadian governance in regional development has resembled, to a degree, that of the EU. The tension between the EU and its member countries has its parallels in Canada with its strong Provinces. Traditionally, the Provinces have informally coordinated their development activities to fit with those of the senior level of government, yet there are always instances where the two overlap and are in conflict. Canada lacks the Competition Directorate of the EU, which tends to mute inter-EU conflicts, but in any case, the diversity and space in the Canadian economy tends to mute these conflicts as well.

Canadian policy differs from its neighbour to the South, which has a number of structural similarities, but is largely content to leave their resolution to social policies alone, or to market mechanisms. It is clearly different from Japan, where the effort to get companies to move out of its largest urban conurbation is the focus of regional development. The strong provincial structure in Canada would make any federal attempt to encourage movement out of the Golden Horseshoe area of Ontario abortive at best. Canada also shares little in common with Australia, where regional policy is centred on infrastructure and resource development. Australia has less than 60 percent of the population of Canada, yet its five largest urban areas have more population than Canada's five largest centres.

The governance structures for regional development do not show much difference between Canada and elsewhere. In part this is due to the kaleidoscopic progression of Canadian

agencies and programs. Almost everything that has been tried elsewhere has been used in Canada at one point or another. The most common approach has been to use a government department. Some countries have used coordinating bodies, planning agencies or special delivery agencies. Some have attempted to create development agencies with a variety of functions while others have been content with funding bodies focussed on projects and businesses. Canada's experiments with ARDA, FRED, DREE, DRIE, ACOA, NewStart, LIP, LEAP, OFY, CES and Community Futures, all in 40 years has meant that it has gained experience in any variation, with the possible exception of a recent experiments in the UK and Italy with public-private partnerships.

The main difference between Canada and the EU has been in the consistency of instruments used. The EU has a certain advantage in that its policies and programs are less driven by electoral politics and the need for novelty. Consequently, it appears that the EU has a greater stability in its instruments and use than does Canada. This is not to say that EU programs do not change, but the variety and speed of replacement of policies, agencies and instruments in Canada is far greater than in the EU. For that matter, the speed is greater than in the case of any other national development efforts surveyed here.

While parts of the Canadian experience with regional development policy have been documented, a comprehensive, long-term estimate of its impact is not available. To our knowledge, no attempt has been made to inventory and evaluate all the agencies and programs and approaches tried over the years. Clearly, some must be more effective than others and these should be continued or resurrected.

It is probable that we are at the start of a new cycle of regional policy and agency focus, probably on regional dimensions of international competitiveness. Canada could provide international leadership by solidly demonstrating that its approach to regional problems is effective and, hence, competitive. To do so requires a careful review of past practices and a savvy estimate of where the world is going in the next decade with regard to regional development. This latter is the subject of the next section of this report.

5.0 The Global Context of Regional Development Policy

In a previous report, Canada and the Future: Global, National and Regional Trends, NAPG focussed on a variety of large-scale movements that would affect Atlantic Canada in the 21st Century. To some degree, regional development policy in Canada and elsewhere is affected by these trends. Four of these, somewhat restated from our original report, are of particular importance. They are:

1. Increasing economic globalization
2. Increasing development of politico-economic zones
3. Changing nature of economic production
4. Changing nature of government responsibilities.

5.1 Globalization

While many commentators discuss the evolution of the global economy, they are agreed that we are not there yet. Some large corporations have succeeded in developing and selling products that are the same worldwide, but true integration is only slowly emerging.

It is apparent enough that many countries have overtly shifted their development focus from one of regional equity/redistribution to one of trying to ensure that broad sectors of national economies become or remain competitive in the face of global competition. In the survey of 15 countries shown above, five of them, at least, noted this as a prime regional and national economic development goal. Based on the historical information used as background to this report, we would estimate that no more than one or two would have expressed similar sentiments at the start of the 1990s.

The concept of global competitiveness can be seen as an additional challenge for regional development policy or as a reason for no longer pursuing such policy. As an extra challenge, it means that regional development departments and agencies have to be conversant with and support practical efforts to introduce local firms into the global economic environment. By and large, this has not been pursued as a priority anywhere, but it will become an emerging area of activity over the next decade. If the 1990s was the decade for SME support by regional development agencies, the 2000s will be the decade of regional/global competitiveness.

The argument against regional development policy arises from the increased visibility of neo-classical economic thought. The collapse of the Soviet Union in 1991, apparently due to problems of production, distribution and innovation, gave neo-classical economics increased intellectual stature. This approach to economic policy advocates that both regulation and incentives are impediments to the proper functioning of markets and, hence, harm prosperity. Regional development, in this approach, is seen as a policy that artificially stimulates business where the market clearly does not exist for it. In the globalization context, any public support offered should only help to enhance competitiveness, irrespective of company location.

Regional development theorists have been slow to show how territorial development can add to national competitiveness within an increasingly globalized economy. There are potentially good arguments, but they have not been articulated well, if at all, so far.

5.2 Politico-economic Zones

A second trend affecting regional development policy is the growth of trade and economic integration by geographic zones. The most obvious are the EU, NAFTA and Mercosur. It is possible that an East Asian zone may result from the present Asian economic crisis.

Through it is most obvious in the EU, because it is a more thoroughgoing integration, trade and economic zones present an integral challenge to their members. The great disparities in income and production between the richest and poorest members of the zones constitute a political challenge of the first magnitude. In the EU, development expenditures approach a third of its budget. While very little has been done between the NAFTA members as yet, pressure continues to grow as more people become aware of the economic plight of the Mexicans. Granted, this trend is in its infancy, but it took decades for the EU to develop its approach to regional questions and its experience with East German reconstruction has given it experience with the challenge posed by the rest of Eastern Europe. Mexico's obvious and continuing disparities will pose a challenge to the cohesion of NAFTA, unless means to address them are found.

Zone disparities and national territorial disparities are both the same and different. They are the same in that the same arguments hold for any kind of policy attention to disparities concentrated in some locations. Whether the locations are geographic parts of a country or entire member countries in a zone is not important. At the same time, the sovereignty of member countries in a zone presents additional political and administrative hurdles to overcome. The EU has increasing success in doing this through the mechanism of bilateral negotiations with member counties, so it is possible.

5.3 Changing Economies

For decades, the primary regional development focus globally has been on reducing unemployment by attracting new manufacturing investment. The most common instrument used for this purpose has been through capital grants. By the beginning of the 1990s it was apparent that new technology was reducing the number of jobs created per million or billion invested. Some automated factories had wage and salary bill of 5 percent of total annual capital and operating costs. The tie between capital grants and employment creation was beginning to break.

Analysis of job creation in the US in the 1970s and 1980s suggested as well that growth in employment in regions was coming almost exclusively from smaller companies, hence the move by regional development agencies all around the world towards SME support. Capital grants were not replaced for the most part: instead they were supplemented with a diverse set of financial and informational programs that also included targeted features at specific demographic groups such as youth and women.

A third change has come with the rise of computer and communications technology companies. The ability to develop software and sell it electronically, while only one variation on a wider theme, is a useful illustration of the trend. It is now possible for people to develop useful computer related products virtually from home (SOHO - "single owner, home office" is coming into increasing use) and to advertise and sell these over the Internet. This can be cone anywhere and sold, virtually instantaneously, anywhere else,. This type of company is an example of the globalization trend mentioned in 3.1 Such processes present a great challenge as well as a great opportunity for regional development agencies. International competitiveness is quick and easy to identify and punishment is brutal for failure. Companies are often hard to identify and agency speed or slowness is quickly noted by potential clients. The opportunities lie in being able to show in a quick and obvious manner whether and how regional development agencies can be effective at their jobs in this context. There is nowhere to hide in this new game.

5.4 Changing Governments

Regional development has been affected by budgetary pressures in all parts of the world. They have been felt most acutely in Canada because of its aggressive program of budget retrenchment in this decade, but they have also affected most EU countries, Mexico and Japan. These pressures are not expected to last beyond the decade, though the lessons of structural deficits will not be lost on many governments, so that funds will continue to be closely monitored. The SME emphasis in the 1990s, mentioned above, had the additional merit of not requiring as large a budget outlay as capital grants for new factories. An international competitiveness focus could continue with a modified SME approach or move to a more comprehensive and, therefore, more expensive set of programs.

Changing government roles can also mean changes in what government does. As the EU has taken a more aggressive stance in monitoring member states' regional development activities, these countries have tended to shift more to national competitiveness issues and leave more of the traditional regional development function to the EU bureaucracy and local administrative bodies. Regional development has gone "up" the levels of government and "down" as well.

As well, relatively little work has been done on evaluating the results of regional development efforts. NAPG's efforts to collect information found that few of the diplomatic corps of different countries know much about the subject or could guide us to basic information. The pressures of neo-conservative policy thinking, budget constraints, globalization and changing technologies all argue that the role and effectiveness of regional development efforts in all parts of the world will be reviewed and changes made over the next decade. Without good evaluation, these changes will be made on whims, hunches and ideology, not on cost-effectiveness.

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